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## Heartland Express, Inc. A Financial Analysis and Valuation Report

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Heartland Express, Inc.  
A Financial Analysis and Valuation Report

A Project Presented to  
the Graduate Faculty of  
Minnesota State University of Moorhead

by

Daniel Franco

In Partial Fulfillment of the  
Requirements for the Degree of  
Master of Science in  
Accounting and Finance

November 2020

Moorhead, Minnesota

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### **Executive Summary**

In this report, I assume the role of a financial analyst to give an investment recommendation to investors when it comes to Heartland Express, Inc (HTLD) stock. This recommendation is based on historical financial analysis and valuation of HTLD while comparing it to one of its competitors, Marten Transport, LTD (MRTN). The financial analysis and valuation process takes company, industry, and market factors into consideration. The five most recent audited financial statements were used in this recommendation process.

My valuation produced an estimated stock price for HTLD on 11/1/2020 of \$18.74. According to my valuation, HTLD's stock is slightly undervalued as my calculated stock price is higher than the company's 11/1/2020 listed stock price of \$18.31. I have determined a hold recommendation as my estimated stock price does not differ much from the listed stock price.

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## **Introduction**

The purpose of this project is to assume the role of a financial analyst and conduct a financial statement analysis and valuation report for a company. In order to complete this report, I selected two companies where the MAIN company is the one I will be giving a stock recommendation for, and the BENCHMARK company is a competitor used for comparisons to help analyze the MAIN company. The MAIN company that I chose to analyze is Heartland Express, Inc (HTLD), and the BENCHMARK company is Marten Transport, LTD (MRTN).

For this project, I had to ensure the two companies listed above met certain criteria, and this criteria being that the MAIN company has to be a public company that is either headquartered or incorporated in the Midwest region of the United States as well as be listed on the Russell 2000 Index. To the largest extent possible, the BENCHMARK company has to meet the criteria set for MAIN while also having the same primary four-or-three-digit Standard Industrial Classification Code (SIC) as MAIN. If possible, the two companies should have comparable historical annual sales.

After selecting these two companies, I gathered five years of annual financial statements in order to populate a financial analysis template that allowed me to compare their year to year performances to each other. I then used financial statement information along with market information to forecast cash flows for MAIN and calculate a weighted average cost of capital (WACC) discount rate in order to calculate the intrinsic value for HTLD on 11/1/2020 and make a buy, hold, or sell recommendation for its stock.



## **Industry Characteristics**

### **Industry Overview**

In order to assess the historical performance of HTLD and forecast future performance, its industry must be analyzed. HTLD and MRTN are both categorized under the Standard Industrial Classification Code 4213 – Transportation and Public Utilities Division, except Local. Establishments in this industry engage primarily in furnishing "over-the-road" trucking services and/or storage services that include household goods as common carriers or under special contracts for freight generally weighing more than 100 pounds.

This industry's performance relies heavily on the state of the economy. As businesses and consumers demand and have the ability to purchase more goods, it brings business to this industry. Fuel prices are a big factor as higher prices create higher fuel revenues but higher fuel expenses as well. While the economy plays a big role, regulations do as well. This industry is regulated by the Department of Transportation (DOT), Environmental Protection Agency (EPA), Department of Homeland Security (DHS), Federal Motor Carrier Safety Administration (FMCSA), along with state and local agencies. As regulations change, costs do as well, impacting profits.

While the two factors listed above give a basic breakdown of what the industry depends on, I dive deeper into the industry using Porter's Five Forces Model to identify strengths and weaknesses to evaluate profitability potential within the industry.

### **Five Forces Model**

Michael E. Porter's Five Forces Model is a framework that identifies key factors that are used to evaluate an industry's profit potential. The five factors are the threat of

entry, power of suppliers, power of buyers, the threat of substitutes, and rivalry among existing firms. After reviewing the five forces, I came to the conclusion that the trucking industry, and HTLD, who is already an existing player, can profit well in the future.

### ***The threat of Entry – Low***

The threat of new entrants can impact an existing company's competitive position and can force them to make changes to their prices. The trucking industry has a low threat of new entrants as barriers to entry include large economies of scale, high costs of building brand awareness, accessing distribution channels, and high costs in meeting government regulations. With a low threat of entry, this can help existing players profit as there will not be many new competitors.

### ***Power of Suppliers – Low***

Companies purchase inputs from suppliers, and the costs of inputs are impacted by the number of suppliers of these inputs as well as the cost of changing from one supplier to another. This all impacts a company's profitability. The bargaining power of suppliers in the trucking industry is low as there are a number of suppliers in this industry that can provide the same inputs. Having many suppliers fighting for the same customers gives them little bargaining power and more potential for profits for companies in the industry.

### ***Power of Buyers – Medium***

Powerful customers can use their strong brand to drive prices, which impacts a company's profitability. In the transportation industry, buyers have many options as to whom they want to carry their products and how. Buyers primarily include retailers and

manufacturers. This puts pressure on companies in the trucking industry to be more open to negotiations from buyers.

### ***The threat of Substitutes – Medium***

When there are substitutes for a company's goods or services, it can cause its prices to fall along with profits. The threat of substitutes is high when these substitutes offer the same (or better) performance as a company's good or service for a lower price. Technological advancements are on the verge of creating substitutes for the trucking industry. On Amazon's website, an announcement is displayed of a new delivery process they are working on called Prime Air. This delivery method includes the use of drones. As drones continue to advance, more companies may start to rely on them for their shipping needs. Another thing that can impact the trucking industry is electric self-driving trucks. There are currently cars that can drive without the use of a driver, so one can assume that this will reach delivery trucks as well. If this does happen, it could change the industry completely since drivers would no longer be required. Since there are potential substitutes in the works for replacing the use of fuel trucks for shipping, the threat of substitutes is medium.

### ***Rivalry Among Existing Firms – Medium to High***

This force goes over the number of players within an industry and the intensity of the competition between them. The greater is the number of players who offer the same products and services, the lower being the company's power. With tough rivalries, there tends to be a war in providing the lowest prices, which hurts profitability. The trucking industry is a very competitive one, with many different players, some being well-established. Large companies are absorbing smaller ones, creating even more leverage for

them. Due to all of this, the rivalry among existing firms force is high, which can hurt the overall profitability of the industry.

## **Firm Characteristics**

### **Company Description**

The origins of HTLD goes back to 1955. It was a relatively small hauler for Whirlpool for twenty years until it was bought in 1978 by Russell Gerdin and was headquartered in North Liberty, Iowa. Gerdin is considered the founder of HTLD as he was the person who started the success of the company. In 1965, Gerdin started his career in the trucking industry when he started working for his father's small trucking company. Gerdin and his father had conflicts regarding how to run the business, so he left to start his own. Over the next decade, he owned or partially owned five more trucking companies. With more than twelve years of experience in the trucking industry, he bought Heartland Express in 1978 and established strong policies that have helped it grow into what it is today.

The company grew steadily in the 1980s, despite the recession throughout that period. The recession actually helped HTLD as manufacturers began to turn to "just in time" inventory systems, which required supplying production lines with supplies only at the time they were needed in order to decrease warehousing costs. This made manufacturers more dependent on short-haul shippers like HTLD for their needs, and this helped the company build its reputation for dependability. By 1986, the company doubled its revenues to roughly \$22 million, and Gerdin took the company public.

HTLD is now one of the leading trucking companies that operates as a short-to-medium haul truckload carrier in the United States and Canada. It provides temperature-controlled truckload services and nationwide asset-based dry van truckload service for shippers all over the U.S. The company operates under brand names Heartland Express and Millis Transfer. It primarily transports automotive parts, paper products, appliances, consumer products, packaged foodstuffs, and retail goods. HTLD generally earns revenue based on the number of miles per load delivered and the price charged per mile.

### **Company Background**

HTLD is a holding company that owns, directly or through subsidiaries, all of the stock of Heartland Express, Inc., Heartland Express Services Inc., Heartland Express Maintenance Services Inc., Midwest Holding Group, LLC, and Millis Transfer, LLC. HTLD has had a total of eight acquisitions since going public in 1986. In 1987, it acquired H&B Carriers, and two years later, in 1989, it acquired PDQ Transportation. In the next six-year span, HTLD acquired three more companies: Munson Transportation (1994), A&M Express (1997), and Great Coastal Express (2002). Since 2013, it acquired Gordon Trucking (2013), Interstate Distributor (2017), with the most recent being Millis Transfer in August of 2019. Each of the companies acquired was operating at an operating ratio in the 90s or above when acquired. The operating ratio is a company's operating expenses as a percentage of revenue. An operating ratio of 90 means that for every dollar in sales the company receives, operating expenses will consume 90% (\$0.90) of that dollar. These acquisitions and organic growth are what have allowed HTLD to become a nationwide truckload carrier.

## Key Executives

A company's performance relies heavily on its top executives. They set strategic objectives to improve performance and enhance stockholder value. The key executives of HTLD and their salaries for 2019 are listed in Table 1. The information in Table 1 comes from HTLD's 2020 Proxy Statement. Michael Gerdin became President in 2006 and has been Chief Executive Director (CEO) and Chairman of the board since 2011. He has 36 years of industry experience and was passed down the CEO and Chairman position from the founder of the company, his father, Russell Gerdin. Since taking over, he has decided to continue to follow the strategies his father had set in place before retiring with an emphasis on controlling expenses. Christopher Strain has been Vice President of Finance, Treasurer, Chief Financial Officer, and Secretary since 2017. Kent Rigdon has served as Vice President of Sales since 2014. Todd Trimble is the newest member, being elected as Vice President of Southern Operations in October 2019. K. Eric Eickman has been Vice President of Information Technology since 2016.

Table 1. List of Executives and Compensation for 2019

Executive	Position	Salary
Michael J. Gerdin	Chief Executive Officer, Chairman, and President	\$757,591
Christopher A. Strain	Vice President of Finance, Treasurer, Chief Financial Officer, and Secretary	\$252,056
Kent D. Rigdon	Vice President of Sales	\$252,106
Todd A. Trimble	Vice President of Southern Operations	\$171,840
K. Eric Eickman	Vice President of Information Technology	\$157,740

## **Company Strategy**

According to HTLD's 2019 Annual Report, its mission is to provide customers with the highest quality of service and safety in the trucking industry. Excellence in service and safety are the company goals. In the report, Michael Gerdin states that HTLD does not operate on a short-term mindset. Its operating model is built on the long-term foundations that have stayed true in good and bad economic times, which have allowed the company to have efficient and consistent operating results. For the past 40 years, it has committed to a long-term strategy to achieve significant growth, operate with a low-80s operating ratio, and maintain a debt-free balance sheet. The company maintains a disciplined approach to cost controls by scrutinizing all expenditures, prioritizing expenses that improve drivers' experiences or customer service, minimizing non-driving personnel through proven technology when the cost of doing so seems justified, and by operating late-model tractors and trailers with enhanced fuel efficiency.

## **Historical Financial Statement Analysis**

### **Significant Accounting Policies for HTLD**

All significant accounting policies mentioned below were retrieved from HTLD's most recent 10-K filing for the year-end of 2019. The following policies for HTLD are briefly discussed to better understand the principles used to prepare its financial statements and for comparing its financial statement information with MRTN's.

### ***Revenue and Expense Recognition***

HTLD recognizes revenue over time as control of the promised service is transferred to its customers at an amount that reflects the consideration it expects to be

entitled in exchange for those services. For the majority of its customers, completion of performance obligations allows the company the right to collect payments generally within thirty days after completion. Each individual shipment accepted by the company is considered a separate contract with the performance obligation being the delivery of the freight. The company estimates revenue for multiple-stop loads based on the miles run and estimate single-stop loads based on transit time as the customer receives the benefit provided.

### ***Prepaid Tires, Property, Equipment, and Depreciation***

Property and equipment are reported at cost, net of depreciation, and maintenance and repairs are charged to operations incurred. "Prepaid Tires" are tires that are capitalized separately from revenue equipment in the consolidated balance sheets and amortized over two years. Depreciation for financial statement purposes is computed by the straight-line method for all assets except for new tractors. For new tractors, excluding tractors acquired through acquisitions, depreciation is recognized using the 125% declining balance method. Newly purchased tractors are depreciated to salvage values of \$15,000, while new trailers are depreciated to salvage values of \$4,000. Depreciable lives of tractors and trailers are five and seven years, respectively, when they are purchased brand new.

### ***Insurance Accruals***

Insurance accruals are the reflection of the estimated costs of claims, including estimated losses and loss adjustments expenses incurred but not reported and not covered by insurance. Workers' compensation and accident accruals are based on individual estimates and historical experiences. Insurance accruals are not discounted, and an



actuarial specialist provides an independent annual assessment of the company's accident and workers' compensation accruals. Insurance accruals are classified as current or non-current in the balance sheets based on the company's expectations of when payment will occur.

### **Significant Accounting Policies for MRTN**

All significant accounting policies mentioned below were retrieved from MRTN's most recent 10-K filing for the year-end of 2019. As previously mentioned, these policies are discussed in order to help compare HTLD and MRTN financial information.

#### ***Revenue and Expense Recognition***

As of January 1, 2018, MRTN adopted a modified retrospective method that recognizes revenue and related expenses in accordance with FASB ASC 606, *Revenue from Contracts with Customers*. This revenue standard requires MRTN to recognize revenue and related expenses within each of its four reporting segments over time. Before adopting this standard, MRTN would record revenue and related expenses on the date shipments for freight were completed. The company accounts for revenue of its Intermodal and Brokerage segments and revenue on freight transported by independent contractors within its Truckload and Dedicated segments on a gross basis since it is the principal service provider controlling the promised service before it is delivered. Revenue is classified as operating revenue, and payments made to the carriers are classified as purchased transportation expenses.

#### ***Property and Equipment***

Additions and improvements are capitalized at cost, while maintenance and repair expenditures are charged to operations. Depreciation is computed based on the cost of the

asset minus its salvage value, using the straight-line method. Depreciation begins in the month the asset is placed in service. Salvage values are based on the expected market values of the equipment after five years for tractors and seven years for trailers as these are the useful lives for depreciating these assets.

### ***Insurance Accruals***

MRTN's insurance accrual reporting method is similar to HTLD's. MRTN's insurance claims consist of the costs of insurance premiums and accrual the company makes within its self-insured retention amounts for different kinds of possible injuries or damages to workers or equipment. These expenses vary primarily on the history of the company's accident experiences.

### **Quality of Earnings**

HTLD's independent external auditor for 2018, and 2019 was Grant Thornton LLP. The accounting firm gave HTLD an unqualified opinion and stated that the company maintained effective internal controls over financial reporting for both periods. HTLD's previous auditor was KPMG, where an unqualified opinion was issued for the other three years used in this analysis. Grant Thornton is MRTN's auditor and has been since 2014. Just like HTLD, MRTN received an unqualified opinion for the five years under analysis. An unqualified opinion means that the auditor believes a company's financial statements are fairly presented and in compliance with generally accepted accounting principles. This tells analysts that they can depend on the information in their financial statements.

I performed an evaluation of the quality of earnings for both companies by comparing annual operating income to annual net cash flows from operating activities.

The average operating income to net cash flows from operating activities ratios for the past five years for HTLD and MRTN are 0.65 and 0.50. For higher quality earnings, the ratio needs to be close to one. While looking at each company's cash flow statements, I noticed that there were items being added or taken out of operating cash flows that were having a reserve impact on operating income, and this is because these aren't actual cash activities. These items include depreciation, stock-based compensation, insurance expense/payables due to estimates, and gains/losses on disposals of property and equipment. After adjusting net cash flows from operating activities for these items, I calculated average ratios of 1.10 and 1.07 for HTLD and MRTN's last five years. Considering the unqualified opinions and the adjusted ratios being close to one, I can conclude that the financial information I am using for this analysis is reliable.

### **Cash Conversion**

This section will cover how HTLD and MRTN generate cash from their operations, along with how quickly they do it. HTLD's business growth requires significant investments in new revenue equipment. This is common as the trucking industry invests heavily in capital assets. With the exception of acquisitions, HTLD has been able to stay away from loans for many years. Its main source of cash in its conversion cycle comes from its accounts receivables, as it does not contain any inventory on its balance sheets. It funds revenue equipment purchases with cash flow provided by these activities and with sales of other equipment. During 2019, HTLD was able to fund the acquisition of Millis Transfer, including paying off all acquired debt and revenue equipment purchases with cash on hand and that provided by operating activities. HTLD believes it has adequate funds to meet current and projected needs.

HTLD needs to keep an eye on its receivables as it is the main source in its cash conversion cycle. Its accounts receivable turnover ratios were 10.32 and 12.25 for 2019 and 2018. With the decrease in the turnover ratio, their accounts receivable turnover in days increased to 35 in 2019 from 30 in 2018. The year 2019 did not go in the direction that the company wanted to go, but it was an improvement from 2017, where on average, it turned over its receivables every 40 days. MRTN being in the same industry also needs to continuously invest in new revenue equipment, so cash turnover is very important for it as well. Its accounts receivable turnover ratios were 8.26 and 9.03 for 2019 and 2018, while on average, it turned over its receivables every 44 and 40 days in 2019 and 2018. As you can see, HTLD is turning over its receivables into cash at a faster rate than MRTN.

### **Cash Flow Analysis**

Continuing with the discussion of cash, in this section, I will be going over the operating, investing, and financing cash flow sections for HTLD and MRTN while also taking a look at liquidity ratios in order to gain a better understanding of how cash has been used for each company. I chose to start analyzing cash first because understanding how each company uses cash will allow me to better analyze other sections throughout the report. As shown in Table 2, both HTLD and MRTN had a negative change in cash for 2019. Both companies show a positive cash flow from their operating activities, while their investing and financing activities tend to decrease cash. HTLD spent a lot of money on investing activities in 2019 as it purchased fixed assets and had an acquisition throughout the year. HTLD spent a lot on financing activities as it paid out a dividend and repaid debt off of its acquired company in 2019. MRTN's 2019 investing activities

also consisted of fixed asset purchases, while its financing activities consisted of paying a larger dividend compared to 2018.

Both companies decreased their cash amounts in 2019, but they normally tend to end up with a positive change in cash. In 2017, HTLD experienced a similar year as 2019 as it had an acquisition that created a negative cash year. Taking away the two acquisitions by HTLD in 2019 and 2017, along with MRTN's increase in special dividend of \$41 million (discussed later in the report), a pattern emerges of having a positive cash flow from operations that is used to purchase fixed assets and pay dividends. Overall, both companies appear to have strong cash cycles as operations tend to bring in enough cash even after large purchases and dividends with the exceptions of uncommon occurrences like those in 2019 and 2017. As mentioned, the trucking industry is capital intensive, so this pattern of continuously investing in fixed assets is necessary.

Table 2. HTLD and MRTN Cash Activity

<b>Heartland Express, Inc. Cash Activity</b>					
<i>In 1000s</i>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Net operating cash flows	146,372	146,543	109,538	155,781	190,472
Net investing cash flows	(132,791)	(37,814)	(132,499)	(39,162)	(67,213)
Net financing cash flows	(100,443)	(31,889)	(30,168)	(21,344)	(107,330)
Change in cash	(86,862)	76,840	(53,129)	95,275	15,929
<b>Marten Transport, LTD Cash Activity</b>					
<i>In 1000s</i>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Net operating cash flows	153,180	150,623	121,879	133,566	128,238
Net investing cash flows	(137,229)	(101,270)	(95,318)	(97,290)	(125,081)
Net financing cash flows	(41,253)	(8,381)	(11,258)	(36,222)	(2,846)
Change in cash	(25,302)	40,972	15,303	54	311

Moving onto liquidity, I will now take a look at each company's liquidity ratios. Liquidity measures a company's ability to pay for short term obligations. The ratios I analyze are current, quick, and cash ratios. Table 3 shows the three ratios for HTLD and MRTN for 2015-2019. It appears that 2018 was the best year for each company when looking at all three ratios. The table shows that both companies were able to improve their liquidity ratios since 2015. HTLD's current ratio increased by 0.33 (16%) since 2015, meaning that its current assets have grown at a higher rate than current liabilities. MRTN's current ratio has only increased by 0.01 since 2015, meaning current assets and liabilities have been changing at the same rate. The quick ratio indicates the company's ability to pay short-term obligations with its most liquid assets. Both companies increased their ratio from 2015, but HTLD stands out the most with a 0.68 (48%) increase. The cash ratio is a specific measure of cash and cash equivalents to current liabilities. HTLD's ratio again stands out as its ratio increased from 2015 by 0.71 (142%). Overall, HTLD appears to have the ability to pay off short-term obligations with more ease compared to MRTN, but one could argue that HTLD is keeping too much cash idle. HTLD has a lot of cash leftover that could be invested elsewhere in order to generate higher returns.

Table 3. Liquidity Ratios

		<b>Liquidity Ratios</b>				
		<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Heartland</b>	Current Ratio	2.39	3.59	2.27	3.08	2.06
	Quick Ratio	2.10	3.25	1.85	2.68	1.42
	Cash Ratio	1.21	2.50	1.00	1.96	0.50
<b>Marten</b>	Current Ratio	2.02	2.27	1.81	1.54	2.01
	Quick Ratio	1.75	2.00	1.51	1.22	1.64
	Cash Ratio	0.41	0.79	0.25	0.01	0.01

## **Profitability Ratios**

Rather than simply looking at a company's net income, a better way to evaluate the profitability of a company is to look at its profitability ratios such as operating margin, net profit margin, return on assets, and return on equity. Overall, it appears that HTLD has had better profitability ratios when compared to MRTN. Operating margin has remained the same since 2015. Net profit margin has fluctuated throughout the years but it ended with 2019 being larger than what it was in 2015. This means that the company is profiting more off of each dollar in sales than it did back in 2015. The downfall for HTLD is that the returns on assets and equity have decreased over the years. Net income for 2019 and 2015 was about the same, but 2019 had 11.26% more assets than it did in 2015 decreasing its return on assets for 2019. The increase in assets for 2019 is primarily due to the acquisition that took place that year. This increase in assets in 2019 also hurt HTLD's total asset turnover ratio as 2019 generated less sales than it did in 2015 while having more assets. This gives the idea that the company is not as efficient at using its assets to generate earnings as it used to be. MRTN's total asset turnover ratio has remained consistent throughout the years, implying it has been generating the same amount of sales per dollar invested in assets. Return on equity is considered the return on net assets, since equity is assets subtracted by liabilities. This ratio also helps identify how well a company is profiting off of its assets, and HTLD has had a decrease in this ratio since 2015, implying again that they are not using net assets to generate profits as well as it used to in 2015.

Table 4. Profitability Ratios

Profitability Ratios						
	Ratios as %s	2019	2018	2017	2016	2015
<b>Heartland</b>	Operating Margin	15.8	14.7	10.5	14.0	15.8
	Net Profit Margin	12.2	11.9	12.4	9.2	9.9
	Total Asset Turnover	0.7	0.8	0.8	0.8	1.0
	Return on Assets	8.1	9.0	9.5	7.6	9.9
	Return on Equity	10.7	11.8	13.1	11.2	15.6
<b>Heartland</b>	Operating Margin	9.1	8.9	8.2	8.7	9.2
	Net Profit Margin	7.2	7.0	12.9	5.0	5.4
	Total Asset Turnover	1.1	1.0	1.0	1.0	1.1
	Return on Assets	7.7	7.3	13.1	5.1	5.7
	Return on Equity	10.2	9.6	17.2	7.7	8.7

### Historical Comparisons of Operations

I now take a look at operating revenue, operating expenses, and operating income for the years 2015 – 2019 and how they have changed throughout the years. Listed below is Table 5, which lists the annual operating revenue, operating expenses, and operating income for the last five years for HTLD and MRTN. As you can see, HTLD's operating accounts have decreased since 2015, but since 2017, their operating expenses have decreased at a higher rate than operating revenue which has lead the company to see increases to their operating income in 2018 and 2019. Fluctuations in operating results can be expected within trucking companies because they operate in a cyclical industry. As mentioned, the state of the economy impacting fuel prices along with demand, impacts revenues and expenses for companies in the trucking industry.



***HTLD Historical Performance***

Table 5. Heartland Express, Inc. Operating Figures

<b>Heartland Express, Inc. Operating Figures</b>					
<i>In 1000s</i>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Operating Revenue	596,815	610,803	607,336	612,937	736,345
Change from prior year	-2.29%	0.57%	-0.91%	-16.76%	
Operating Expenses	502,540	521,016	543,792	527,369	619,765
Change from prior year	-3.55%	-4.19%	3.11%	-14.91%	
Operating Income	94,275	89,787	63,544	85,568	116,580
Change from prior year	5.00%	41.30%	-25.74%	-26.60%	

According to HTLD's 2019 10-K filing, there was an increase in demand for freight services in the trucking industry starting in 2017 that remained for the majority of 2018, with the peak being in the middle of 2018 and then declining thereafter. In 2019, the demand for freight services was lower than what it was in 2018, and this hurt HTLD. Fluctuations also occur with changes to the economy, which impact fuel prices. Increases to fuel prices can increase operating income but have a negative impact on operations if a company does not act accordingly. HTLD's 2019 10-K filing stated that the Department of Energy (DOE) average price of fuel decreased by about 4% from 2018 to 2019, and this created lower fuel surcharge revenue along with lower fuel expenses. The decrease in fuel prices, overall fuel efficiency improvements over the years carried into 2019 with more fuel-efficient tractors, and negotiated price discounts at a network of stops in the United States helped HTLD decrease its fuel expenses by about \$8.6 million. Rent and purchased transportation decreased by about \$10.7 million due to a decrease in amounts paid to independent contractors of \$3.5 million and less paid for operating leases of revenue equipment of \$7.2 million. These decreases were due to fewer miles being driven

by independent contractors and an effort to remove leases acquired from the Interstate Distributor acquisition in 2017. These two decreases combined helped 2019 have an overall higher operating income compared to 2018 as expenses dropped more than income. This is an example year of how HTLD tries to control expenses to keep a low operating ratio, especially when revenue is decreasing.

HTLD's 2018 operating revenue increased from 2017 due to an increase for freight services leading up to a peak midway through 2018 that was mentioned up above along with an increase in fuel prices. Following the company's strategy of prioritizing expenses, HTLD was able to obtain a 4.19% decrease in operating expenses that was primarily due to decreases in salaries and wages as well as rent and purchased transportation. HTLD decreased salaries and wages by \$9 million due to the attrition of drivers and a decline of non-driver employees and related benefit costs for both groups. Rent and purchased transportation decreased about \$11.3 million with decreases in amounts paid to third-party carriers on brokered loads of \$5.5 million, \$2.1 million for operating leases of revenue equipment, and \$3.7 million for independent contractors. These decreases were a result of discontinuing the non-asset-based brokerage services; fewer miles are driven by independent contractors, and an effort to remove leased equipment from the Interstate Distributor acquisition. Non-asset based brokerage services revenue was only 1.4% of 2017 total revenue. HTLD discontinued these services due to lack of revenue, and while doing so it got rid of some expenses as well.

The year 2017 was not good for HTLD compared to 2016. Operating revenue decreased with fewer miles driven throughout the year. Fuel prices increased, but the increase in fuel surcharge revenue was offset by the decrease in trucking. Not only did

revenues decrease, but operating expenses increased by 3.11%. Looking vertically at HTLD's 2017 net income statement, operating expenses made up almost 90% of revenue, and the company's overall strategy is to maintain a low 80s ratio. This was due to increases in salary and wages of \$4.9 million due to the acquisition of Interstate Distributor employees along with a wage increase of 5%. Rent and purchased transportation increased by \$6.5 million due to the increase in operating leases of revenue equipment that were associated with the Interstate Distributor acquisition. As mentioned earlier, fuel prices increased throughout the year, and this caused fuel expense to increase by \$12.9 million (14.1% change).

HTLD's 2016 period saw the biggest changes when compared to its prior year. As you can see in Table 5, there was a 17% decrease in revenue and a 15% change in operating expenses that accumulated to a 27% decrease in operating income. Trucking revenues decreased by \$90 million due to freight demand, and HTLD downsizing their fleet throughout the year to help cut back on costs. Fuel surcharge revenue decreased by \$33 million due to average DOE diesel fuel prices decreasing 14% compared to 2015 along with a decrease in loaded miles. Operating expenses decreased with revenue as salaries and wages decreased by \$45 million due to fewer miles driven throughout the year due to less demand and now operating a smaller fleet compared to 2015. Another big factor that contributed to the 15% decrease in operating expenses was fuel. Fuel decreased \$32 million due to the large fuel price decrease and loaded miles with a smaller fleet.

### ***MRTN Historical Performance***

Table 6. Marten Transport, LTD Operating Figures

<b>Marten Transport, LTD Operating Figures</b>					
<i>In 1000s</i>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Operating Revenue	843,271	787,594	698,120	671,144	664,994
Change from prior year	7.07%	12.82%	4.02%	0.92%	
Operating Expenses	766,773	717,246	641,258	612,841	603,931
Change from prior year	6.91%	11.85%	4.64%	1.48%	
Operating Income	76,498	70,348	56,862	58,303	61,063
Change from prior year	8.74%	23.72%	-2.47%	-4.52%	

As you can see by comparing Table 5 and Table 6, MRTN has been able to increase operating revenue every year since 2015. This is because MRTN has a more diversified income statement by having four different operating income segments, so if fuel surcharge revenue decreases due to a decrease in fuel prices, it can make up for it in other areas. Its four operations are Truckload, Dedicated, Intermodal, and Brokerage. Truckload consists of hauling packaged goods, including food, in a dry freight with a temperature-controlled unit. Dedicated consists of customized freights depending on a customer's preference, and agreements range from three to five years. Intermodal is transporting orders in temperature-controlled trailers on railroad flatcars for parts of a trip, so tractors are used to a lesser extent. Lastly, Brokerage consists of dealing with third-party carriers to transport freight for customers within the United States and Mexico. In Brokerage, the main factor that affects revenue is the rate per mile and other charges the company receives from its customers. Operating expenses grew as revenue did, but that is something to be expected when generating more revenue.

MRTN had a 7% increase in overall operating revenue in 2019 from 2018. This was mainly due to the Dedicated segment increasing by \$42 million due to an increase in the number of Dedicated contracts that the company had with its customers in customized freight deliveries and brokerage revenue increasing by \$22.5 million. As stated earlier, fuel prices impact a trucking company's revenue, and with the decrease to fuel prices in 2019, MRTN had decreases to fuel surcharge revenues in its Truckload and Intermodal segments, but these were offset by the large increases mentioned above. Operating expenses also increased in 2019 compared to 2018, and this was a result of increases to: salary and wages of \$22 million due to additional driver compensation, purchased transportation of \$14.3 million due to increases in third-party expenses to keep up with brokerage revenue increasing, and depreciation increasing by \$6.6 million due to an increase in the size of the company's fleet. Fuel expenses decreased due to the prices in fuel, but were not significant enough to make a dent in operating expenses.

MRTN saw its biggest leap in operating revenue and operating income in 2018. This was due to them taking advantage of the demand growth noted earlier while fuel prices also increased, so there was an increase in fuel surcharge revenues. The Dedicated segment increased by \$57 million due to growth in Dedicated contracts with the increase in demand. The intermodal segment increased revenue by \$21 million due to an increase in revenue per load and volume. The Brokerage segment saw a \$16 million increase due to an increase in rates and volume with customers. With fuel prices increasing throughout the year and high demand, fuel surcharge revenue increased for all three applicable segments being Truckload, Dedicated, and Intermodal. Overall, all-expense categories

increased in 2018 compared to 2017, but this was to keep up with the large increase in revenue.

MRTN's 2017 changes from 2016 is the period with the least significant variances when looking at Table 5. Operating revenue increased by \$27 million (4%), primarily due to the Dedicated segment increasing by \$9.5 million due to fleet growth along with an increase in fuel surcharge revenue with the increase in fuel prices for the year and the Intermodal segment increasing revenue by \$9.1 million due to increases in volume. With fuel prices increasing throughout the year, all three segments that have fuel surcharge revenue saw a positive impact as fuel surcharge revenue increased as well. The fuel price change increased revenue, but it also increased fuel expense by \$11 million. Operating expenses overall increased by \$28 million from 2016. The company saw a \$6 million increase in insurance and claims as to the cost of physical damage claims to tractors, trailers, and employees increased. There was also a \$5 million loss on disposition of revenue equipment that was due to the decrease in average gain for tractors as the market was not in favor. Overall, operating income did not decrease by much, but operating expenses ended up being 91.9% of operating revenue, which was the highest operating ratio the company showed in the five-year period being analyzed.

The 2016 operating revenue figures for MRTN did not change much compared to 2015, only a 1% increase. There was a 14% decrease in fuel prices in 2016 compared to 2015, which negatively impacted fuel surcharge revenue for the company, especially the Truckload segment, where its fuel surcharge revenue decreased by \$15 million. What kept the company from achieving similar operating income compared to the year before was their Dedicated revenue. Dedicated revenue saw a 33.1% increase due to an increase

in average fleet size and volume of Dedicated contracts with customers. Operating expenses increased at a higher rate than operating revenue (1.48%) due to an increase in salary and wages of \$15 million and \$7 million in depreciation. Salary and wages increased due to an increase in miles driven while depreciation increased due to the growth of its fleet.

### **Trends in Growth for MAIN and BENCHMARK**

As mentioned before, HTLD's strategy consists of playing the long game and does not have a short-term mindset. They grow through organic sales and acquisitions. Although revenue has not been increasing the way they would like, they have been following through on staying committed to operating at a low 80s operating ratio by having a disciplined cost approach and prioritizing expenses as needed, and that is why they are starting to get back on track to 2015 figures by increasing to operating income in the last two years. MRTN's growth strategy consists of growing organically through its sales. It has been able to do this over the years by maintaining consistent sales and operating growth throughout the years, as explained below.

Overall, it appears that MRTN has been able to continuously grow its operating revenue from year to year since 2015 for a total increase of 26.8% (6.7% yearly average change), while HTLD has an overall decrease of 18.9% (-4.7% yearly average change). Operating expenses have increased for MRTN by a total of 27% (6.7% yearly average change), while HTLD has had an overall decrease of 18.9% (-4.7% yearly average change). Even though MRTN has been able to contain more consistent revenue, HTLD has been able to control expenses in a more efficient manner in order to attain higher operating income figures at the end of all five years. Looking at the five year period

vertically, this is because HTLD has been able to follow its business strategy of maintaining its operating ratios in the low 80s while MRTN has maintained an average operating ratio of 91.2 over the last five years. This looks great for HTLD, but its average yearly change for operating income since 2015 is a negative 4.8%, while MRTN is increasing its operating income per year at an increasing rate of 6.32%. This now looks concerning for HTLD, but this negative rate of operating income is mainly due to the years 2016 and 2017. Since 2017, HTLD has been attaining more profit after each year, and is looking towards reaching operating profits that they used to back in 2015 as its operating ratio for 2019 of 84.2% is close to what it was in 2015 of 84.17%, while its operating income has increased by 48.4% since 2017.

### **Asset Base**

The trucking industry is one that is very capital intensive. HTLD pays for capital expenditures with cash flows from operations and proceeds from sales of older assets. For the years 2019 and 2018, HTLD has maintained a fixed asset base of approximately \$526 million and \$403 million. Revenue equipment accounted for most fixed assets and increased (before depreciation) from \$479 million in 2018 to \$583 million in 2019. MRTN had a fixed asset base in 2019 and 2018 of \$640 million and \$588 million. Revenue equipment was also the biggest contributor for the company and increased (before depreciation) from \$680 million in 2018 to \$764 million in 2019. HTLD and MRTN's fixed asset bases have both increased since 2015 by approximately 11% and 21%.

Taking a look at sales generated from fixed assets, HTLD generated \$1.15 in sales for every dollar invested in its fixed assets. This is a decrease from 2018 as it used to be



\$1.54. This makes sense as sales decreased in 2019 compared to 2018, while fixed assets increased. Fixed assets increased due to the acquisition in 2019 while sales weren't impacted as much since the acquisition happened halfway through the year. MRTN generated \$1.32 and \$1.34 in sales for every dollar invested in fixed assets in 2019 and 2018. This difference is understandable as MRTN generated about \$246 million more in revenue in 2019, with only having \$114 million more in fixed assets. MRTN's return on equity has increased since 2015 due to 2019 generating \$1.32 of sales per dollar invested in fixed assets while 2015 had a ratio of \$1.26. It appears that MRTN is utilizing its fixed assets more efficiently to generate sales compared to HTLD.

### **Capital Structure**

The capital structure for HTLD and MRTN are extremely similar since both companies try to have no outstanding long-term debt and be financed solely through equity. As mentioned previously, these companies actively invest in capital assets, and they have managed to do so through cash from their operations. Both companies have not expressed interest in stock issuances or new loans.

HTLD's average debt to equity ratios for 2019 and 2018 is 31.3% and 30.9%. The company had a cash flow to total debt of 68.3% and 77.0% for 2019 and 2018. MRTN's debt to equity ratios for 2019 and 2018 is 33.3% and 30.9%, while its cash flow to total debt was 77.0% and 84.6%. Both companies' capital structure reflects what they are trying to accomplish with their strategies. HTLD uses organic sales and acquisitions to grow and pays off any debt it acquires through its new subsidiary while not using any loans due to not wanting debt on its balance sheet. MRTN relies on organic sales for growth while also trying not to have any debt. The long-term debt that appears on both

companies' financial statements consists of insurance accruals and deferred income taxes. Overall, the two companies seem to have very similar capital structures that don't require loans or additional stock issuances to fund their assets since they can do it through their operations.

### **Dividend and Stock Repurchases**

Both HTLD and MRTN have a dividend policy set in place and plan to continue paying quarterly dividends if future financial conditions allow it, along with approval from the Board of Directors. In 2019 and 2018, HTLD paid \$0.08 per share in both years, equaling up to around \$66 million for each year. MRTN paid \$0.77 (includes a special dividend of \$0.65 per share in September) and \$0.025 in 2019 and 2018, which totaled up to \$42.1 million and \$5 million.

HTLD did not buy back any stock in 2019, but it did buy 1.4 million shares in 2018. It currently has 6.9 million shares authorized for repurchase. MRTN did not repurchase any shares in 2019, but it did in 2018, buying back 200,000 shares, and the board has approved for an additional 1.8 million shares for the future. Both companies timing on repurchases are determined by market conditions, cash flow requirements, and other factors.

### **Financial Analysis Comparison Conclusion**

HTLD and MRTN both have many similarities, but there were differences noted. With receivables, it was noted that HTLD has been more efficient in turning over its receivables. HTLD has higher receivable turnover ratios and is converting its receivables days faster than HTLD. As for looking at overall cash activities for the two companies for the years 2015-2019, HTLD has shown to generate a greater positive change in cash

throughout the past five years when not dealing with acquisitions. Both companies seemed to follow a pattern in their operating, investing, and financing activities of using operating cash flow to purchase fixed assets and pay dividends. HTLD ending with more cash throughout the years goes back to it, turning over its receivables at a faster rate, especially since MRTN has had more sales throughout the years analyzed. HTLD also displayed better liquidity ratios, as shown in Table 2, meaning it has a greater ability to pay off short-term obligations and have cash on hand when needed.

Moving onto sales, expenses, and profitability, HTLD displayed better performance in the last five years, even after experiencing greater impacts due to economic changes with demand and fuel prices. With fewer sales, HTLD has been able to achieve higher operating income figures compared to MRTN and has also displayed better profitability ratios, as shown in Table 3.

Both companies follow a similar capital structure where they have no long-term debt outstanding from loans and are financed through equity. They both displayed similar debt to equity ratios and invest heavily in capital assets as is required in the trucking industry. As noted, MRTN does display an advantage in sales generated per dollar invested in fixed assets for 2019 but not for the years 2018-2015.

To put it all together, it seems as if HTLD has been able to do more with fewer sales. HTLD has shown to be more efficient in its control over expenses, and this is a result of its CEO prioritizing expenses and following through on trying to maintain a low 80s operating ratio. MRTN appears more consistent in their growth of sales, but HTLD still has outperformed them when comparing profit ratios, and this is because MRTN has displayed an average operating ratio of 91.2. The economy plays a big role in the

trucking industry, and negative trends have seemed to hurt HTLD sales more than MRTN as MRTN has a more diversified income statement. As mentioned earlier, in the years where HTLD sales were down due to demand or fuel price decreases, HTLD made adjustments to its expenses to have them decrease at a rate where it still remained profitable. MRTN has displayed a 6.37% average increase in operating income for the last five years with following through on its emphasis of growing through organic sales while HTLD has an average of -4.8%. This gives the idea that MRTN is catching up to HTLD profit-wise, but this is due to HTLD having bad operating years in 2016 and 2017. Looking at 2018 and 2019, HTLD and MRTN have shown an average operating income growth of 23.15% and 16.23%. HTLD is on track to become even more profitable than its best the year of 2015 and remain more profitable than MRTN. This can be credited to policies that HTLD founder Russell Gerdin set in place for his son Michael Gerdin to follow and perfect.

## **Valuation**

### **Valuation Assumptions**

Over the next five years, expect to see HTLD grow. The year 2015 seemed to be the most profitable year out of the last five years, but it has shown positive trends in the past two years. Although 2019 had a 2.29% decrease in revenue compared to 2018, I'm going to start my valuation with a 9% increase in revenue. The start rate of 9% comes from HTLD's 2020 quarter three earnings release showing that it had \$489.5 million in revenue as of 9/30/20, and following that rate of revenue, it would have a 9.35% increase by the end of the year compared to 2019. This was lowered to 9% to take into account the possibility of revenues rate decreasing a bit in the fourth quarter. This initial growth rate

decreases steadily for five years until it reaches a long-term rate of 5%. I chose 5% as my long-term growth rate as the American Trucking Association predicts that freight volumes will grow by over 36% over the next decade. I believe that with the predicted increase in volumes for the industry and the acquisition of Millis Transfer in 2019, HTLD will generate consistent growth in sales in the future. HTLD's 2020 third quarter 10-Q filing shows that due to the acquisition, revenue up to the third quarter for HTLD has increased from last year's amount by 14.2%. I believe Millis Transfer will help bring in consistent sales for years to come while HTLD may make more acquisitions in the future to continue to grow. Operating expense ratios stayed the same to mirror the most recent average, as I don't see HTLD moving away from their strategy of aiming for a low 80s operating ratio. I decided to keep working capital accounts and fixed assets to be consistent with the most recent company trend shown in the last five years as I don't see signs of them making significant changes to these accounts.

### **WACC, Forecasted FCFs, and Terminal Value**

The weighted average cost of capital (WACC) is a discount rate that is used in a model called the Gordon Growth Model to calculate the terminal value for a company. The rate is composed of a company's percent of common stock in the capital structure, percent of interest-bearing debt in the capital structure, required rate of return for stock, the required rate of return for interest-bearing debt, and a tax rate. Since HTLD's capital structure consists mainly of equity financing, the required rate of return for common stock is the main focus for the WACC calculation for HTLD. The required rate of return is calculated using the Capital Asset Pricing Model (CAPM), where beta, a risk-free rate, and the market risk premium rate is used. The beta of 0.55 was used, as this is HTLD's

five years monthly beta, according to Yahoo Finance.<sup>1</sup> The Business Valuation Resources Cost of Capital Professional platform of the American Society of Appraisers is where the risk-free rate and average rate of return for the market of 4.51% and 9.92% were obtained. The risk-free rate is the average annual rate of a 10-year treasury bond, while the average rate of return for the market is the average annual return for the S&P 500 since 1928. Even though HTLD is listed on the Russell 2000 Index, I used the S&P 500 due it providing a broader view of the economic health of the United States. The S&P 500 is one of the most commonly used indexes for valuation purposes. The market risk premium is 5.41% as the risk-free rate is subtracted from the average rate of return for the market. The CAPM model gives us a cost of equity of 7.49%. This 7.49% is then used to help generate a WACC of 7.38% which will be used as a discount rate for forecasted free cash flows. The other components used in the calculation were a target percent financed with long-term debt of 10%, a target percent financed with equity of 90%, cost of long-term debt of 8.61%, and a tax rate of 25%. A target percent financed with long-term debt of 10% was incorporated into the equation to take into account the possibility of HTLD using loans in the future. The cost of debt was calculated adding the risk-free rate of 4.51% and a spread for bond ratings of 4.1%.

I project that 2020 will show a significant increase to free cash flows (FCF), as this is the year with the greatest jump in sales and least amount investment in operating capital. The FCF will then decrease for 2021 as more will be invested in operating capital

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<sup>1</sup> Heartland Express, Inc.'s beta was obtained from Yahoo Finance on 10/31/2020.

but there will then be increases from 2022-2024 as net operating profit after taxes should increase throughout those years to end with an FCF value of \$48,516,000 in 2024.

As mentioned earlier, the terminal value is calculated using the Gordon Growth Model. The value of operations can be found by adding the projected FCF and the value of operations for the following year. This value is then discounted by the WACC. Next, the total value of the firm can be found by adjusting the value of operations for half-year convention and adding the projected value of investments. The projected value of debt is subtracted from the total value of the firm to get the value of equity of HTLD of \$1.54 billion. HTLD has around 82 million shares as of the target date, which leaves us with an estimated stock price on 11/1/2020 of \$18.74. This \$18.74 estimation is greater than the listed stock price of \$18.31 as of 11/1/2020. After performing the financial statement analysis for the last five years for HTLD, I expected its stock to be undervalued. The analysis showed that HTLD has been increasing profits for the last two years and if it maintains that growth, it will outperform its best in the profit year of 2015 in the near future. HTLD's CEO has shown that it will not steer away from its company strategy of aiming for low 80 operating ratios, and this has made it be more profitable than its competitor, MRTN, for the last five years. Also, after reviewing Porter's Five Forces Model, I came to the conclusion that HTLD can profit well in the future as it is already a major player in a very competitive industry with a low threat of new entrants, low power for suppliers, medium power for customers, and a medium threat of substitutes.

### **Sensitivity Analysis**

A sensitivity analysis for HTLD's stock is shown in Table 7. The sensitivity analysis shows how dependent the stock price is on different inputs for starting and long-

term sale growth rates for HTLD. The analysis shows that the long-term growth rate seems to have a greater impact on stock price than the starting rate. This conclusion comes from comparing the \$18.74 stock price calculated up above when using starting and long-term rates of 9% and 5% to the column showing a starting rate of 7%. The column showing a starting rate of 7% shows that it can still achieve a higher stock price than \$18.74 simply by increasing the long-term sales growth rate by 1% to 6% and get \$19.81. This demonstrates that a 2% decrease to the starting sales growth rate does not have as big of an impact as a 1% change to the long-term sales growth rate, and this is due to the long-term rate being used every year into perpetuity.

Table 7. Sensitivity Analysis

<b>Heartland Express, Inc. Sensitivity Analysis</b>		<b>Starting Sales Growth Rate</b>				
		<b>11%</b>	<b>10%</b>	<b>9%</b>	<b>8%</b>	<b>7%</b>
<b>LT Sales Growth</b>		\$	\$	\$	\$	\$
<b>Rate</b>	<b>7%</b>	24.79	24.38	23.99	23.60	23.21
	<b>6%</b>	21.01	20.70	20.40	20.10	19.81
	<b>5%</b>	19.27	19.00	18.74	18.48	18.23
	<b>4%</b>	17.93	17.69	17.47	17.24	17.02
	<b>3%</b>	16.83	16.62	16.42	16.22	16.03

### **Investment Recommendation**

To conclude this financial analysis and valuation report for HTLD, I will give an investment recommendation. I believe that HTLD's company stock is slightly undervalued. The stock price listed for HTLD on 11/1/20 is \$18.31, and I estimate the value on 11/1/20 to be \$18.74. Since the estimated stock price is relatively close to the actual trading price, I recommend investors to hold HTLD stock.



**Appendix A: Heartland Express, Inc. FINSAS**

FinSAS Version 2003051213  
Company:  
Analyst:  
Most Recent Year Available:  
Years Available for:  
Income Statement (1-5)  
Balance Sheet (1-5)

Input  
Heartland Express, Inc.  
Daniel Franco  
2019

INCOME STATEMENT	2019	2018	2017	2016	2015
Net Sales	596815000	610803000	607336000	612937000	736345000
Less: Cost of Goods Sold	0	0	0	0	0
Gross Profit	596815000	610803000	607336000	612937000	736345000
Other Operating Revenue	0	0	0	0	0
Less: Operating Expenses	502540000	521016000	543792000	527369000	619765000
Operating Income	94275000	89787000	63544000	85568000	116580000
Less: Interest Expense (no capitalized interest)	1052000	0	175000	0	19000
Other Income (Expenses)	3955000	2130000	1129000	481000	210000
Unusual or Infreq. Item; Gain (Loss)	0	0	0	0	0
Equity in Earnings of Assoc.; Profit (Loss)	0	0	0	0	0
Income before Taxes	97178000	91917000	64498000	86049000	116771000
Less:Taxes Related to Operations	24211000	19240000	-10675000	29663000	43715000
N.I. before Min. Ern.	72967000	72677000	75173000	56386000	73056000
Minority Share of Earnings (Loss)	0	0	0	0	0
N.I. before Nonrecurring Items	72967000	72677000	75173000	56386000	73056000
Oper. of Discontinued Segment; Income (Loss)	0	0	0	0	0
Disposal of Discont. Segment; Gain (Loss)	0	0	0	0	0
Extraordinary Item; Gain (Loss)	0	0	0	0	0
Cum. Effect of Acct Change; Gain (Loss)	0	0	0	0	0
Net Income (Loss)	72967000	72677000	75173000	56386000	73056000

BALANCE SHEET	2019	2018	2017	2016	2015
ASSETS					
Current Assets:					
Cash	76684000	161448000	75378000	128507000	33232000
Marketable Securities	0	0	0	0	0
Gross Receivables	57853000	49855000	65793000	48344000	62509000
Less: Allowance for Bad Debts	1100000	900000	1500000	1500000	1500000
Net Trade Receivables	56753000	48955000	64293000	46844000	61009000
Inventories	0	0	0	0	0
Prepaid Expenses	9107000	9378000	10989000	8181000	9584000
Other Current Assets	9270000	12721000	20175000	18579000	32619000
Total Current Assets	151814000	232502000	170835000	202111000	136444000

## Long-Term Assets:

Net Tangible (Fixed) Assets (other than construction in progress)	519936000	396580000	438866000	407594000	473785000
Construction in Progress	6351000	6540000	3996000	54000	213000
Intangible Assets	195431000	146904000	149432000	112302000	114225000
Investments	0	0	0	0	0
Other Nonoperating Assets	0	0	0	0	0
Other Operating Assets	25399000	23687000	25998000	16167000	11363000
Total Long-Term Assets	747117000	573711000	618292000	536117000	599586000
Total Assets	898931000	806213000	789127000	738228000	736030000
LIABILITIES AND EQUITY					
Current Liabilities:					
Accounts Payable	11060000	10552000	14366000	12355000	7516000
Short Term Loans	0	0	0	0	0
Current Maturity of L.t. Debt	0	0	0	0	0
Other Current Liabilities	52347000	54137000	60955000	53179000	58652000
Total Current Liabilities	63407000	64689000	75321000	65534000	66168000
Long-Term Liabilities:					
Long-term Debt	57167000	54511000	73673000	72211000	75663000
Reserves	0	0	0	0	0
Deferred Liabilities	93698000	71041000	65488000	94657000	112118000
Minority Interest	0	0	0	0	0
Redeemable Preferred	0	0	0	0	0
Other Long-term Liabilities	0	0	0	0	12153000
Total Long-term Liabilities	150865000	125552000	139161000	166868000	199934000
Total Liabilities	214272000	190241000	214482000	232402000	266102000
Shareholders' Equity:					
Preferred Equity	0	0	0	0	0
Common Equity-incl. Ret. Ern.	684659000	615972000	574645000	505826000	469928000
Total Equity	684659000	615972000	574645000	505826000	469928000
Total Liabilities and Equity	898931000	806213000	789127000	738228000	736030000
=====	=====	=====	=====	=====	=====

OTHER DATA	2019	2018	2017	2016	2015
Capitalized Interest	0.0	0.0	0.0	0.0	0.0
Interest Portion of Rentals	0.0	0.0	0.0	0.0	0.0
Liquidation Value of Pref. Stock	0.0	0.0	0.0	0.0	0.0
Dividends on Redeemable Pref.	0.0	0.0	0.0	0.0	0.0
Dividends on Nonredeemable Pref.	0.0	0.0	0.0	0.0	0.0
Dividends per Common Share	0.080	0.080	0.080	0.080	0.080
Total Cash Dividends	6563000.0	6589000.0	6667000.0	6666000.0	6942000.0
Dil. Earn. per Sh. before Nonrec. Items	0.890	0.880	0.900	0.680	0.840
Market Price per Common Share	21.050	18.300	23.340	20.360	17.090
Tax Rate (0-1)	0.000	0.000	0.000	0.000	0.000
Common Shares Outstanding	#####	#####	#####	#####	#####
Diluted Weighted Average Common Shares	#####	#####	#####	#####	#####
Cash Flow from Operations	#####	#####	#####	#####	#####
Option expense:					
Net income not including opt. exp.	0.0	0.0	0.0	0.0	0.0
Net income including opt. exp.	0.0	0.0	0.0	0.0	0.0

FinSAS Version 2003051213  
Company:  
Analyst:  
Most Recent Year Available:  
Years Available for:  
Income Statement (1-5)  
Balance Sheet (1-5)

**Vertical Analysis**  
**Heartland Express, Inc.**  
**Daniel Franco**  
**2019**

INCOME STATEMENT	2019	2018	2017	2016	2015
Net Sales	100.00%	100.00%	100.00%	100.00%	100.00%
Less: Cost of Goods Sold	0.00%	0.00%	0.00%	0.00%	0.00%
Gross Profit	100.00%	100.00%	100.00%	100.00%	100.00%
Other Operating Revenue	0.00%	0.00%	0.00%	0.00%	0.00%
Less: Operating Expenses	84.20%	85.30%	89.54%	86.04%	84.17%
Operating Income	15.80%	14.70%	10.46%	13.96%	15.83%
Less: Interest Expense (no capitalized interest)	0.18%	0.00%	0.03%	0.00%	0.00%
Other Income (Expenses)	0.66%	0.35%	0.19%	0.08%	0.03%
Unusual or Infreq. Item; Gain (Loss)	0.00%	0.00%	0.00%	0.00%	0.00%
Equity in Earnings of Assoc. ; Profit (Loss)	0.00%	0.00%	0.00%	0.00%	0.00%
Income before Taxes	16.28%	15.05%	10.62%	14.04%	15.86%
Less:Taxes Related to Operations	4.06%	3.15%	-1.76%	4.84%	5.94%
N.I. before Min. Ern.	12.23%	11.90%	12.38%	9.20%	9.92%
Minority Share of Earnings (Loss)	0.00%	0.00%	0.00%	0.00%	0.00%
N.I. before Nonrecurring Items	12.23%	11.90%	12.38%	9.20%	9.92%
Oper. of Discontinued Segment; Income (Loss)	0.00%	0.00%	0.00%	0.00%	0.00%
Disposal of Discont. Segment; Gain (Loss)	0.00%	0.00%	0.00%	0.00%	0.00%
Extraordinary Item; Gain (Loss)	0.00%	0.00%	0.00%	0.00%	0.00%
Cum. Effect of Acct Change; Gain (Loss)	0.00%	0.00%	0.00%	0.00%	0.00%
Net Income (Loss)	12.23%	11.90%	12.38%	9.20%	9.92%

BALANCE SHEET	2019	2018	2017	2016	2015
ASSETS					
Current Assets:					
Cash	8.53%	20.03%	9.55%	17.41%	4.52%
Marketable Securities	0.00%	0.00%	0.00%	0.00%	0.00%
Gross Receivables	6.44%	6.18%	8.34%	6.55%	8.49%
Less: Allowance for Bad Debts	0.12%	0.11%	0.19%	0.20%	0.20%
Net Trade Receivables	6.31%	6.07%	8.15%	6.35%	8.29%
Inventories	0.00%	0.00%	0.00%	0.00%	0.00%
Prepaid Expenses	1.01%	1.16%	1.39%	1.11%	1.30%
Other Current Assets	1.03%	1.58%	2.56%	2.52%	4.43%
Total Current Assets	16.89%	28.84%	21.65%	27.38%	18.54%

Long-Term Assets:

Net Tangible (Fixed) Assets (other than construction in progress)	57.84%	49.19%	55.61%	55.21%	64.37%
Construction in Progress	0.71%	0.81%	0.51%	0.01%	0.03%
Intangible Assets	21.74%	18.22%	18.94%	15.21%	15.52%
Investments	0.00%	0.00%	0.00%	0.00%	0.00%
Other Nonoperating Assets	0.00%	0.00%	0.00%	0.00%	0.00%
Other Operating Assets	2.83%	2.94%	3.29%	2.19%	1.54%
	-----	-----	-----	-----	-----
Total Long-Term Assets	83.11%	71.16%	78.35%	72.62%	81.46%
Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%
LIABILITIES AND EQUITY					
Current Liabilities:					
Accounts Payable	1.23%	1.31%	1.82%	1.67%	1.02%
Short Term Loans	0.00%	0.00%	0.00%	0.00%	0.00%
Current Maturity of L.t. Debt	0.00%	0.00%	0.00%	0.00%	0.00%
Other Current Liabilities	5.82%	6.71%	7.72%	7.20%	7.97%
	-----	-----	-----	-----	-----
Total Current Liabilities	7.05%	8.02%	9.54%	8.88%	8.99%
Long-Term Liabilities:					
Long-term Debt	6.36%	6.76%	9.34%	9.78%	10.28%
Reserves	0.00%	0.00%	0.00%	0.00%	0.00%
Deferred Liabilities	10.42%	8.81%	8.30%	12.82%	15.23%
Minority Interest	0.00%	0.00%	0.00%	0.00%	0.00%
Redeemable Preferred	0.00%	0.00%	0.00%	0.00%	0.00%
Other Long-term Liabilities	0.00%	0.00%	0.00%	0.00%	1.65%
	-----	-----	-----	-----	-----
Total Long-term Liabilities	16.78%	15.57%	17.63%	22.60%	27.16%
Total Liabilities	23.84%	23.60%	27.18%	31.48%	36.15%
Shareholders' Equity:					
Preferred Equity	0.00%	0.00%	0.00%	0.00%	0.00%
Common Equity-incl. Ret. Ern.	76.16%	76.40%	72.82%	68.52%	63.85%
	-----	-----	-----	-----	-----
Total Equity	76.16%	76.40%	72.82%	68.52%	63.85%
Total Liabilities and Equity	100.00%	100.00%	100.00%	100.00%	100.00%
=====	=====	=====	=====	=====	=====

FinSAS Version 2003051213  
Company:  
Analyst:  
Most Recent Year Available:  
Years Available for:  
Income Statement (1-5)  
Balance Sheet (1-5)

**Horizontal Analysis**  
**Heartland Express, Inc.**  
**Daniel Franco**  
**2019**

INCOME STATEMENT	2019	2018	2017	2016	2015
Net Sales	81.05%	82.95%	82.48%	83.24%	100.00%
Less: Cost of Goods Sold	#N/A	#N/A	#N/A	#N/A	#N/A
Gross Profit	81.05%	82.95%	82.48%	83.24%	100.00%
Other Operating Revenue	#N/A	#N/A	#N/A	#N/A	#N/A
Less: Operating Expenses	81.09%	84.07%	87.74%	85.09%	100.00%
Operating Income	80.87%	77.02%	54.51%	73.40%	100.00%
Less: Interest Expense (no capitalized interest)	5536.84%	0.00%	921.05%	0.00%	100.00%
Other Income (Expenses)	1883.33%	1014.29%	537.62%	229.05%	100.00%
Unusual or Infreq. Item; Gain (Loss)	#N/A	#N/A	#N/A	#N/A	#N/A
Equity in Earnings of Assoc. ; Profit (Loss)	#N/A	#N/A	#N/A	#N/A	#N/A
Income before Taxes	83.22%	78.72%	55.23%	73.69%	100.00%
Less:Taxes Related to Operations	55.38%	44.01%	-24.42%	67.86%	100.00%
N.I. before Min. Ern.	99.88%	99.48%	102.90%	77.18%	100.00%
Minority Share of Earnings (Loss)	#N/A	#N/A	#N/A	#N/A	#N/A
N.I. before Nonrecurring Items	99.88%	99.48%	102.90%	77.18%	100.00%
Oper. of Discontinued Segment; Income (Loss)	#N/A	#N/A	#N/A	#N/A	#N/A
Disposal of Discont. Segment; Gain (Loss)	#N/A	#N/A	#N/A	#N/A	#N/A
Extraordinary Item; Gain (Loss)	#N/A	#N/A	#N/A	#N/A	#N/A
Cum. Effect of Acct Change; Gain (Loss)	#N/A	#N/A	#N/A	#N/A	#N/A
Net Income (Loss)	99.88%	99.48%	102.90%	77.18%	100.00%

BALANCE SHEET	2019	2018	2017	2016	2015
ASSETS					
Current Assets:					
Cash	230.75%	485.82%	226.82%	386.70%	100.00%
Marketable Securities	#N/A	#N/A	#N/A	#N/A	#N/A
Gross Receivables	92.55%	79.76%	105.25%	77.34%	100.00%
Less: Allowance for Bad Debts	73.33%	60.00%	100.00%	100.00%	100.00%
Net Trade Receivables	93.02%	80.24%	105.38%	76.78%	100.00%
Inventories	#N/A	#N/A	#N/A	#N/A	#N/A
Prepaid Expenses	95.02%	97.85%	114.66%	85.36%	100.00%
Other Current Assets	28.42%	39.00%	61.85%	56.96%	100.00%
Total Current Assets	111.26%	170.40%	125.21%	148.13%	100.00%

Long-Term Assets:					
Net Tangible (Fixed) Assets (other than construction in progress)	109.74%	83.70%	92.63%	86.03%	100.00%
Construction in Progress	2981.69%	3070.42%	1876.06%	25.35%	100.00%
Intangible Assets	171.09%	128.61%	130.82%	98.32%	100.00%
Investments	#N/A	#N/A	#N/A	#N/A	#N/A
Other Nonoperating Assets	#N/A	#N/A	#N/A	#N/A	#N/A
Other Operating Assets	223.52%	208.46%	228.80%	142.28%	100.00%
-----					
Total Long-Term Assets	124.61%	95.68%	103.12%	89.41%	100.00%
Total Assets	122.13%	109.54%	107.21%	100.30%	100.00%
LIABILITIES AND EQUITY					
Current Liabilities:					
Accounts Payable	147.15%	140.39%	191.14%	164.38%	100.00%
Short Term Loans	#N/A	#N/A	#N/A	#N/A	#N/A
Current Maturity of L.t. Debt	#N/A	#N/A	#N/A	#N/A	#N/A
Other Current Liabilities	89.25%	92.30%	103.93%	90.67%	100.00%
-----					
Total Current Liabilities	95.83%	97.76%	113.83%	99.04%	100.00%
Long-Term Liabilities:					
Long-term Debt	75.55%	72.04%	97.37%	95.44%	100.00%
Reserves	#N/A	#N/A	#N/A	#N/A	#N/A
Deferred Liabilities	83.57%	63.36%	58.41%	84.43%	100.00%
Minority Interest	#N/A	#N/A	#N/A	#N/A	#N/A
Redeemable Preferred	#N/A	#N/A	#N/A	#N/A	#N/A
Other Long-term Liabilities	0.00%	0.00%	0.00%	0.00%	100.00%
-----					
Total Long-term Liabilities	75.46%	62.80%	69.60%	83.46%	100.00%
Total Liabilities	80.52%	71.49%	80.60%	87.34%	100.00%
Shareholders' Equity:					
Preferred Equity	#N/A	#N/A	#N/A	#N/A	#N/A
Common Equity-incl. Ret. Ern.	145.69%	131.08%	122.28%	107.64%	100.00%
-----					
Total Equity	145.69%	131.08%	122.28%	107.64%	100.00%
Total Liabilities and Equity	122.13%	109.54%	107.21%	100.30%	100.00%
=====					

FinSAS Version 2003051213  
Company:  
Analyst:  
Most Recent Year Available:  
Years Available for:  
Income Statement (1-5)  
Balance Sheet (1-5)

Ratios - average  
Heartland Express, Inc.  
Daniel Franco  
2019

LIQUIDITY	2019	2018	2017	2016	2015
Days' Sales in Receivables	35.38	29.79	39.54	28.79	30.99
Accounts Receivable Turnover	11.08	10.56	10.64	11.06	
A/R Turnover in Days	32.94	34.55	34.30	33.01	
Days' Sales in Inventory	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Inventory Turnover	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	
Inventory Turnover in Days	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	
Operating Cycle	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	
Working Capital	#####	#####	#####	#####	#####
Current Ratio	2.39	3.59	2.27	3.08	2.06
Acid Test	2.10	3.25	1.85	2.68	1.42
Cash Ratio	1.21	2.50	1.00	1.96	0.50
Sales to Working Capital	4.66	4.64	5.23	5.93	
Cash Flow/Cur. Mat. of Debt & NP	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
LONG-TERM DEBT-PAYING ABILITY	2019	2018	2017	2016	2015
Times Interest Earned	93.37	#DIV/0!	369.56	#DIV/0!	6146.84
Fixed Charge Coverage	93.37	#DIV/0!	369.56	#DIV/0!	6146.84
Debt Ratio	23.84%	23.60%	27.18%	31.48%	36.15%
Debt/Equity	31.30%	30.88%	37.32%	45.95%	56.63%
Debt to Tangible Net Worth	43.80%	40.56%	50.44%	59.06%	74.81%
Cash Flow/Total Debt	68.31%	77.03%	51.07%	67.03%	71.58%
PROFITABILITY	2019	2018	2017	2016	2015
Net Profit Margin	12.23%	11.90%	12.38%	9.20%	9.92%
Total Asset Turnover	0.70	0.77	0.80	0.83	
Return on Assets	8.56%	9.11%	9.84%	7.65%	
Operating Income Margin	15.80%	14.70%	10.46%	13.96%	15.83%
Operating Asset Turnover	0.88	0.95	0.96	0.98	
Return on Operating Assets	13.97%	13.94%	10.07%	13.72%	
Sales to Fixed Assets	1.30	1.46	1.44	1.39	
Return on Investment	9.39%	9.99%	10.87%	8.40%	
Return on Total Equity	11.22%	12.21%	13.91%	11.56%	
Return on Common Equity	11.22%	12.21%	13.91%	11.56%	
Gross Profit Margin	100.00%	100.00%	100.00%	100.00%	100.00%
INVESTOR ANALYSIS	2019	2018	2017	2016	2015
Degree of Financial Leverage	1.01	1.00	1.00	1.00	1.00
Earnings per Share	0.89	0.88	0.90	0.68	0.84
Price/Earnings Ratio	23.65	20.80	25.93	29.94	20.35



Percentage of Earnings Retained	91.01%	90.93%	91.13%	88.18%	90.50%
Dividend Payout	8.99%	9.09%	8.89%	11.76%	9.52%
Dividend Yield	0.38%	0.44%	0.34%	0.39%	0.47%
Book Value per Share	8.35	7.52	6.90	6.07	5.59
Materiality of Options					
Oper. Cash Flow per Share	1.78	1.78	1.31	1.87	2.19
Oper. Cash Flow/Cash Dividends	22.30	22.24	16.43	23.37	27.44
Year-end Market Price	21.05	18.30	23.34	20.36	17.09
=====					

FinSAS Version 2003051213  
Company:  
Analyst:  
Most Recent Year Available:  
Years Available for:  
Income Statement (1-5)  
Balance Sheet (1-5)

Ratios - ending  
Heartland Express, Inc.  
Daniel Franco  
2019

\* EOY values instead of averages

LIQUIDITY	2019	2018	2017	2016	2015
Days' Sales in Receivables	35.38	29.79	39.54	28.79	30.99
* Accounts Receivable Turnover	10.32	12.25	9.23	12.68	11.78
* A/R Turnover in Days	35.38	29.79	39.54	28.79	30.99
Days' Sales in Inventory	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
* Inventory Turnover	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
* Inventory Turnover in Days	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
* Operating Cycle	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Working Capital	#####	#####	#####	#####	#####
Current Ratio	2.39	3.59	2.27	3.08	2.06
Acid Test	2.10	3.25	1.85	2.68	1.42
Cash Ratio	1.21	2.50	1.00	1.96	0.50
* Sales to Working Capital	6.75	3.64	6.36	4.49	10.48
Cash Flow/Cur. Mat. of Debt & NP	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
LONG-TERM DEBT-PAYING ABILITY	2019	2018	2017	2016	2015
Times Interest Earned	93.37	#DIV/0!	369.56	#DIV/0!	6,146.84
Fixed Charge Coverage	93.37	#DIV/0!	369.56	#DIV/0!	6,146.84
Debt Ratio	23.84%	23.60%	27.18%	31.48%	36.15%
Debt/Equity	31.30%	30.88%	37.32%	45.95%	56.63%
Debt to Tangible Net Worth	43.80%	40.56%	50.44%	59.06%	74.81%
Cash Flow/Total Debt	68.31%	77.03%	51.07%	67.03%	71.58%
PROFITABILITY	2019	2018	2017	2016	2015
Net Profit Margin	12.23%	11.90%	12.38%	9.20%	9.92%
* Total Asset Turnover	0.66	0.76	0.77	0.83	1.00
* Return on Assets	8.12%	9.01%	9.53%	7.64%	9.93%
Operating Income Margin	15.80%	14.70%	10.46%	13.96%	15.83%
* Operating Asset Turnover	0.86	0.94	0.96	0.98	1.18
* Return on Operating Assets	13.52%	13.75%	10.00%	13.67%	18.76%
* Sales to Fixed Assets	1.15	1.54	1.38	1.50	1.55
* Return on Investment	8.86%	9.80%	10.56%	8.38%	10.91%
* Return on Total Equity	10.66%	11.80%	13.08%	11.15%	15.55%
* Return on Common Equity	10.66%	11.80%	13.08%	11.15%	15.55%
Gross Profit Margin	100.00%	100.00%	100.00%	100.00%	100.00%
INVESTOR ANALYSIS	2019	2018	2017	2016	2015
Degree of Financial Leverage	1.01	1.00	1.00	1.00	1.00
Earnings per Share	0.89	0.88	0.90	0.68	0.84
Price/Earnings Ratio	23.65	20.80	25.93	29.94	20.35

Percentage of Earnings Retained	91.01%	90.93%	91.13%	88.18%	90.50%
Dividend Payout	8.99%	9.09%	8.89%	11.76%	9.52%
Dividend Yield	0.38%	0.44%	0.34%	0.39%	0.47%
Book Value per Share	8.35	7.52	6.90	6.07	5.59
Materiality of Options					
Oper. Cash Flow per Share	1.78	1.78	1.31	1.87	2.19
Oper. Cash Flow/Cash Dividends	22.30	22.24	16.43	23.37	27.44
Year-end Market Price	21.05	18.30	23.34	20.36	17.09
=====					

**Appendix B: Marten Transport, LTD FINSAS**

FinSAS Version 2003051213  
Company:  
Analyst:  
Most Recent Year Available:  
Years Available for:  
Income Statement (1-5)  
Balance Sheet (1-5)

Input  
Marten Transport Ltd  
Daniel Franco  
2019

INCOME STATEMENT	2019	2018	2017	2016	2015
Net Sales	843271000	787594000	698120000	671144000	664994000
Less: Cost of Goods Sold	0	0	0	0	0
Gross Profit	843271000	787594000	698120000	671144000	664994000
Other Operating Revenue	0	0	0	0	0
Less: Operating Expenses	766773000	717246000	641258000	612841000	603931000
Operating Income	76498000	70348000	56862000	58303000	61063000
Less: Interest Expense (no capitalized interest)	0	0	0	0	0
Other Income (Expenses)	1190000	681000	-389000	-1237000	-372000
Unusual or Infreq. Item; Gain (Loss)	0	0	0	0	0
Equity in Earnings of Assoc.; Profit (Loss)	0	0	0	0	0
Income before Taxes	77688000	71029000	56473000	57066000	60691000
Less:Taxes Related to Operations	16617000	16002000	-33811000	23602000	24946000
N.I. before Min. Ern.	61071000	55027000	90284000	33464000	35745000
Minority Share of Earnings (Loss)	0	0	0	0	0
N.I. before Nonrecurring Items	61071000	55027000	90284000	33464000	35745000
Oper. of Discontinued Segment; Income (Loss)	0	0	0	0	0
Disposal of Discont. Segment; Gain (Loss)	0	0	0	0	0
Extraordinary Item; Gain (Loss)	0	0	0	0	0
Cum. Effect of Acct Change; Gain (Loss)	0	0	0	0	0
Net Income (Loss)	61071000	55027000	90284000	33464000	35745000

BALANCE SHEET	2019	2018	2017	2016	2015
ASSETS					
Current Assets:					
Cash	31461000	56763000	15791000	488000	434000
Marketable Securities	0	0	0	0	0
Gross Receivables	102149000	87189000	81317000	73910000	81787000
Less: Allowance for Bad Debts	382000	348000	300000	275000	305000
Net Trade Receivables	101767000	86841000	81017000	73635000	81482000
Inventories	0	0	0	0	0
Prepaid Expenses	20938000	19924000	19810000	19307000	18134000
Other Current Assets	0	0	0	0	0
Total Current Assets	154166000	163528000	116618000	93430000	100050000

## Long-Term Assets:

Net Tangible (Fixed) Assets (other than construction in progress)	640394000	588230000	571920000	557825000	528009000
Construction in Progress	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Investments	0	0	0	0	0
Other Nonoperating Assets	0	0	0	0	0
Other Operating Assets	2026000	2146000	1865000	2493000	3469000
Total Long-Term Assets	642420000	590376000	573785000	560318000	531478000
Total Assets	796586000	753904000	690403000	653748000	631528000
LIABILITIES AND EQUITY					
Current Liabilities:					
Accounts Payable	22917000	15704000	16478000	14391000	12007000
Short Term Loans	0	0	0	0	0
Current Maturity of L.t. Debt	0	0	0	0	0
Other Current Liabilities	53409000	56269000	47799000	46279000	37869000
Total Current Liabilities	76326000	71973000	64277000	60670000	49876000
Long-Term Liabilities:					
Long-term Debt	0	0	0	7886000	37867000
Reserves	0	0	0	0	0
Deferred Liabilities	122022000	105977000	100626000	147854000	134364000
Minority Interest	0	0	0	0	0
Redeemable Preferred	0	0	0	0	0
Other Long-term Liabilities	649000	0	0	0	0
Total Long-term Liabilities	122671000	105977000	100626000	155740000	172231000
Total Liabilities	198997000	177950000	164903000	216410000	222107000
Shareholders' Equity:					
Preferred Equity	0	0	0	0	0
Common Equity-incl. Ret. Ern.	597589000	575954000	525500000	437338000	409421000
Total Equity	597589000	575954000	525500000	437338000	409421000
Total Liabilities and Equity	796586000	753904000	690403000	653748000	631528000
=====	=====	=====	=====	=====	=====

OTHER DATA	2019	2018	2017	2016	2015
Capitalized Interest	0.0	0.0	0.0	0.0	0.0
Interest Portion of Rentals	0.0	0.0	0.0	0.0	0.0
Liquidation Value of Pref. Stock	0.0	0.0	0.0	0.0	0.0
Dividends on Redeemable Pref.	0.0	0.0	0.0	0.0	0.0
Dividends on Nonredeemable Pref.	0.0	0.0	0.0	0.0	0.0
Dividends per Common Share	0.513	0.067	0.053	0.040	0.040
Total Cash Dividends	#####	5459000.0	4361000.0	3252000.0	3342000.0
Dil. Earn. per Sh. before Nonrec. Items	0.740	0.667	1.100	0.408	0.424
Market Price per Common Share	14.330	10.790	13.530	9.320	7.080
Tax Rate (0-1)	0.000	0.000	0.000	0.000	0.000
Common Shares Outstanding	#####	#####	#####	#####	#####
Diluted Weighted Average Common Shares	#####	#####	#####	#####	#####
Cash Flow from Operations	#####	#####	#####	#####	#####
Option expense:					
Net income not including opt. exp.	0.0	0.0	0.0	0.0	0.0
Net income including opt. exp.	0.0	0.0	0.0	0.0	0.0

FinSAS Version 2003051213  
Company:  
Analyst:  
Most Recent Year Available:  
Years Available for:  
Income Statement (1-5)  
Balance Sheet (1-5)

**Vertical Analysis**  
**Marten Transport Ltd**  
**Daniel Franco**  
**2019**

5  
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INCOME STATEMENT	2019	2018	2017	2016	2015
Net Sales	100.00%	100.00%	100.00%	100.00%	100.00%
Less: Cost of Goods Sold	0.00%	0.00%	0.00%	0.00%	0.00%
Gross Profit	100.00%	100.00%	100.00%	100.00%	100.00%
Other Operating Revenue	0.00%	0.00%	0.00%	0.00%	0.00%
Less: Operating Expenses	90.93%	91.07%	91.85%	91.31%	90.82%
Operating Income	9.07%	8.93%	8.15%	8.69%	9.18%
Less: Interest Expense (no capitalized interest)	0.00%	0.00%	0.00%	0.00%	0.00%
Other Income (Expenses)	0.14%	0.09%	-0.06%	-0.18%	-0.06%
Unusual or Infreq. Item; Gain (Loss)	0.00%	0.00%	0.00%	0.00%	0.00%
Equity in Earnings of Assoc.; Profit (Loss)	0.00%	0.00%	0.00%	0.00%	0.00%
Income before Taxes	9.21%	9.02%	8.09%	8.50%	9.13%
Less:Taxes Related to Operations	1.97%	2.03%	-4.84%	3.52%	3.75%
N.I. before Min. Ern.	7.24%	6.99%	12.93%	4.99%	5.38%
Minority Share of Earnings (Loss)	0.00%	0.00%	0.00%	0.00%	0.00%
N.I. before Nonrecurring Items	7.24%	6.99%	12.93%	4.99%	5.38%
Oper. of Discontinued Segment; Income (Loss)	0.00%	0.00%	0.00%	0.00%	0.00%
Disposal of Discont. Segment; Gain (Loss)	0.00%	0.00%	0.00%	0.00%	0.00%
Extraordinary Item; Gain (Loss)	0.00%	0.00%	0.00%	0.00%	0.00%
Cum. Effect of Acct Change; Gain (Loss)	0.00%	0.00%	0.00%	0.00%	0.00%
Net Income (Loss)	7.24%	6.99%	12.93%	4.99%	5.38%
BALANCE SHEET	2019	2018	2017	2016	2015
ASSETS					
Current Assets:					
Cash	3.95%	7.53%	2.29%	0.07%	0.07%
Marketable Securities	0.00%	0.00%	0.00%	0.00%	0.00%
Gross Receivables	12.82%	11.57%	11.78%	11.31%	12.95%
Less: Allowance for Bad Debts	0.05%	0.05%	0.04%	0.04%	0.05%
Net Trade Receivables	12.78%	11.52%	11.73%	11.26%	12.90%
Inventories	0.00%	0.00%	0.00%	0.00%	0.00%
Prepaid Expenses	2.63%	2.64%	2.87%	2.95%	2.87%
Other Current Assets	0.00%	0.00%	0.00%	0.00%	0.00%
Total Current Assets	19.35%	21.69%	16.89%	14.29%	15.84%

Long-Term Assets:

Net Tangible (Fixed) Assets (other than construction in progress)	80.39%	78.02%	82.84%	85.33%	83.61%
Construction in Progress	0.00%	0.00%	0.00%	0.00%	0.00%
Intangible Assets	0.00%	0.00%	0.00%	0.00%	0.00%
Investments	0.00%	0.00%	0.00%	0.00%	0.00%
Other Nonoperating Assets	0.00%	0.00%	0.00%	0.00%	0.00%
Other Operating Assets	0.25%	0.28%	0.27%	0.38%	0.55%
<hr/>					
Total Long-Term Assets	80.65%	78.31%	83.11%	85.71%	84.16%
Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%
LIABILITIES AND EQUITY					
Current Liabilities:					
Accounts Payable	2.88%	2.08%	2.39%	2.20%	1.90%
Short Term Loans	0.00%	0.00%	0.00%	0.00%	0.00%
Current Maturity of L.t. Debt	0.00%	0.00%	0.00%	0.00%	0.00%
Other Current Liabilities	6.70%	7.46%	6.92%	7.08%	6.00%
<hr/>					
Total Current Liabilities	9.58%	9.55%	9.31%	9.28%	7.90%
Long-Term Liabilities:					
Long-term Debt	0.00%	0.00%	0.00%	1.21%	6.00%
Reserves	0.00%	0.00%	0.00%	0.00%	0.00%
Deferred Liabilities	15.32%	14.06%	14.57%	22.62%	21.28%
Minority Interest	0.00%	0.00%	0.00%	0.00%	0.00%
Redeemable Preferred	0.00%	0.00%	0.00%	0.00%	0.00%
Other Long-term Liabilities	0.08%	0.00%	0.00%	0.00%	0.00%
<hr/>					
Total Long-term Liabilities	15.40%	14.06%	14.57%	23.82%	27.27%
Total Liabilities	24.98%	23.60%	23.89%	33.10%	35.17%
Shareholders' Equity:					
Preferred Equity	0.00%	0.00%	0.00%	0.00%	0.00%
Common Equity-incl. Ret. Ern.	75.02%	76.40%	76.11%	66.90%	64.83%
<hr/>					
Total Equity	75.02%	76.40%	76.11%	66.90%	64.83%
Total Liabilities and Equity	100.00%	100.00%	100.00%	100.00%	100.00%
=====					



FinSAS Version 2003051213  
Company:  
Analyst:  
Most Recent Year Available:  
Years Available for:  
Income Statement (1-5)  
Balance Sheet (1-5)

**Horizontal Analysis**  
**Marten Transport Ltd**  
**Daniel Franco**  
**2019**

INCOME STATEMENT	2019	2018	2017	2016	2015
Net Sales	126.81%	118.44%	104.98%	100.92%	100.00%
Less: Cost of Goods Sold	#N/A	#N/A	#N/A	#N/A	#N/A
Gross Profit	126.81%	118.44%	104.98%	100.92%	100.00%
Other Operating Revenue	#N/A	#N/A	#N/A	#N/A	#N/A
Less: Operating Expenses	126.96%	118.76%	106.18%	101.48%	100.00%
Operating Income	125.28%	115.21%	93.12%	95.48%	100.00%
Less: Interest Expense (no capitalized interest)	#N/A	#N/A	#N/A	#N/A	#N/A
Other Income (Expenses)	-319.89%	-183.06%	104.57%	332.53%	100.00%
Unusual or Infreq. Item; Gain (Loss)	#N/A	#N/A	#N/A	#N/A	#N/A
Equity in Earnings of Assoc. ; Profit (Loss)	#N/A	#N/A	#N/A	#N/A	#N/A
Income before Taxes	128.01%	117.03%	93.05%	94.03%	100.00%
Less:Taxes Related to Operations	66.61%	64.15%	-135.54%	94.61%	100.00%
N.I. before Min. Ern.	170.85%	153.94%	252.58%	93.62%	100.00%
Minority Share of Earnings (Loss)	#N/A	#N/A	#N/A	#N/A	#N/A
N.I. before Nonrecurring Items	170.85%	153.94%	252.58%	93.62%	100.00%
Oper. of Discontinued Segment; Income (Loss)	#N/A	#N/A	#N/A	#N/A	#N/A
Disposal of Discont. Segment; Gain (Loss)	#N/A	#N/A	#N/A	#N/A	#N/A
Extraordinary Item; Gain (Loss)	#N/A	#N/A	#N/A	#N/A	#N/A
Cum. Effect of Acct Change; Gain (Loss)	#N/A	#N/A	#N/A	#N/A	#N/A
Net Income (Loss)	170.85%	153.94%	252.58%	93.62%	100.00%

BALANCE SHEET	2019	2018	2017	2016	2015
ASSETS					
Current Assets:					
Cash	7249.08%	13079.03%	3638.48%	112.44%	100.00%
Marketable Securities	#N/A	#N/A	#N/A	#N/A	#N/A
Gross Receivables	124.90%	106.60%	99.43%	90.37%	100.00%
Less: Allowance for Bad Debts	125.25%	114.10%	98.36%	90.16%	100.00%
Net Trade Receivables	124.90%	106.58%	99.43%	90.37%	100.00%
Inventories	#N/A	#N/A	#N/A	#N/A	#N/A
Prepaid Expenses	115.46%	109.87%	109.24%	106.47%	100.00%
Other Current Assets	#N/A	#N/A	#N/A	#N/A	#N/A
Total Current Assets	154.09%	163.45%	116.56%	93.38%	100.00%

Long-Term Assets:					
Net Tangible (Fixed) Assets (other than construction in progress)	121.28%	111.41%	108.32%	105.65%	100.00%
Construction in Progress	#N/A	#N/A	#N/A	#N/A	#N/A
Intangible Assets	#N/A	#N/A	#N/A	#N/A	#N/A
Investments	#N/A	#N/A	#N/A	#N/A	#N/A
Other Nonoperating Assets	#N/A	#N/A	#N/A	#N/A	#N/A
Other Operating Assets	58.40%	61.86%	53.76%	71.87%	100.00%
-----					
Total Long-Term Assets	120.87%	111.08%	107.96%	105.43%	100.00%
Total Assets	126.14%	119.38%	109.32%	103.52%	100.00%
LIABILITIES AND EQUITY					
Current Liabilities:					
Accounts Payable	190.86%	130.79%	137.24%	119.86%	100.00%
Short Term Loans	#N/A	#N/A	#N/A	#N/A	#N/A
Current Maturity of L.t. Debt	#N/A	#N/A	#N/A	#N/A	#N/A
Other Current Liabilities	141.04%	148.59%	126.22%	122.21%	100.00%
-----					
Total Current Liabilities	153.03%	144.30%	128.87%	121.64%	100.00%
Long-Term Liabilities:					
Long-term Debt	0.00%	0.00%	0.00%	20.83%	100.00%
Reserves	#N/A	#N/A	#N/A	#N/A	#N/A
Deferred Liabilities	90.81%	78.87%	74.89%	110.04%	100.00%
Minority Interest	#N/A	#N/A	#N/A	#N/A	#N/A
Redeemable Preferred	#N/A	#N/A	#N/A	#N/A	#N/A
Other Long-term Liabilities	#N/A	#N/A	#N/A	#N/A	#N/A
-----					
Total Long-term Liabilities	71.22%	61.53%	58.43%	90.43%	100.00%
Total Liabilities	89.60%	80.12%	74.24%	97.44%	100.00%
Shareholders' Equity:					
Preferred Equity	#N/A	#N/A	#N/A	#N/A	#N/A
Common Equity-incl. Ret. Ern.	145.96%	140.68%	128.35%	106.82%	100.00%
-----					
Total Equity	145.96%	140.68%	128.35%	106.82%	100.00%
Total Liabilities and Equity	126.14%	119.38%	109.32%	103.52%	100.00%
=====					

FinSAS Version 2003051213  
Company:  
Analyst:  
Most Recent Year Available:  
Years Available for:  
Income Statement (1-5)  
Balance Sheet (1-5)

**Ratios - average**  
**Marten Transport Ltd**  
**Daniel Franco**  
**2019**

LIQUIDITY	2019	2018	2017	2016	2015
Days' Sales in Receivables	44.21	40.41	42.52	40.20	44.89
Accounts Receivable Turnover	8.91	9.35	8.99	8.62	
A/R Turnover in Days	40.98	39.05	40.58	42.34	
Days' Sales in Inventory	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Inventory Turnover	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	
Inventory Turnover in Days	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	
Operating Cycle	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	
Working Capital	#####	#####	#####	#####	#####
Current Ratio	2.02	2.27	1.81	1.54	2.01
Acid Test	1.75	2.00	1.51	1.22	1.64
Cash Ratio	0.41	0.79	0.25	0.01	0.01
Sales to Working Capital	9.96	10.95	16.41	16.19	
Cash Flow/Cur. Mat. of Debt & NP	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
LONG-TERM DEBT-PAYING ABILITY	2019	2018	2017	2016	2015
Times Interest Earned	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Fixed Charge Coverage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Debt Ratio	24.98%	23.60%	23.89%	33.10%	35.17%
Debt/Equity	33.30%	30.90%	31.38%	49.48%	54.25%
Debt to Tangible Net Worth	33.30%	30.90%	31.38%	49.48%	54.25%
Cash Flow/Total Debt	76.98%	84.64%	73.91%	61.72%	57.74%
PROFITABILITY	2019	2018	2017	2016	2015
Net Profit Margin	7.24%	6.99%	12.93%	4.99%	5.38%
Total Asset Turnover	1.09	1.09	1.04	1.04	
Return on Assets	7.88%	7.62%	13.43%	5.21%	
Operating Income Margin	9.07%	8.93%	8.15%	8.69%	9.18%
Operating Asset Turnover	1.09	1.09	1.04	1.04	
Return on Operating Assets	9.87%	9.74%	8.46%	9.07%	
Sales to Fixed Assets	1.37	1.36	1.24	1.24	
Return on Investment	8.71%	8.41%	14.81%	5.70%	
Return on Total Equity	10.41%	9.99%	18.75%	7.90%	
Return on Common Equity	10.41%	9.99%	18.75%	7.90%	
Gross Profit Margin	100.00%	100.00%	100.00%	100.00%	100.00%
INVESTOR ANALYSIS	2019	2018	2017	2016	2015
Degree of Financial Leverage	1.00	1.00	1.00	1.00	1.00
Earnings per Share	0.74	0.67	1.10	0.41	0.42
Price/Earnings Ratio	19.36	16.18	12.30	22.84	16.70

Percentage of Earnings Retained	31.08%	90.08%	95.17%	90.28%	90.65%
Dividend Payout	69.32%	10.04%	4.82%	9.80%	9.43%
Dividend Yield	3.58%	0.62%	0.39%	0.43%	0.56%
Book Value per Share	7.28	7.05	6.42	5.36	5.00
Materiality of Options					
Oper. Cash Flow per Share	1.85	1.82	1.48	1.63	1.52
Oper. Cash Flow/Cash Dividends	3.64	27.59	27.95	41.07	38.37
Year-end Market Price	14.33	10.79	13.53	9.32	7.08
=====					

FinSAS Version 2003051213  
Company:  
Analyst:  
Most Recent Year Available:  
Years Available for:  
Income Statement (1-5)  
Balance Sheet (1-5)

**Ratios - ending**  
**Marten Transport Ltd**  
**Daniel Franco**  
**2019**

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\* EOY values instead of averages

LIQUIDITY	2019	2018	2017	2016	2015
Days' Sales in Receivables	44.21	40.41	42.52	40.20	44.89
* Accounts Receivable Turnover	8.26	9.03	8.59	9.08	8.13
* A/R Turnover in Days	44.21	40.41	42.52	40.20	44.89
Days' Sales in Inventory	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
* Inventory Turnover	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
* Inventory Turnover in Days	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
* Operating Cycle	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Working Capital	#####	#####	#####	#####	#####
Current Ratio	2.02	2.27	1.81	1.54	2.01
Acid Test	1.75	2.00	1.51	1.22	1.64
Cash Ratio	0.41	0.79	0.25	0.01	0.01
* Sales to Working Capital	10.83	8.60	13.34	20.49	13.25
Cash Flow/Cur. Mat. of Debt & NP	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
LONG-TERM DEBT-PAYING ABILITY	2019	2018	2017	2016	2015
Times Interest Earned	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Fixed Charge Coverage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Debt Ratio	24.98%	23.60%	23.89%	33.10%	35.17%
Debt/Equity	33.30%	30.90%	31.38%	49.48%	54.25%
Debt to Tangible Net Worth	33.30%	30.90%	31.38%	49.48%	54.25%
Cash Flow/Total Debt	76.98%	84.64%	73.91%	61.72%	57.74%
PROFITABILITY	2019	2018	2017	2016	2015
Net Profit Margin	7.24%	6.99%	12.93%	4.99%	5.38%
* Total Asset Turnover	1.06	1.04	1.01	1.03	1.05
* Return on Assets	7.67%	7.30%	13.08%	5.12%	5.66%
Operating Income Margin	9.07%	8.93%	8.15%	8.69%	9.18%
* Operating Asset Turnover	1.06	1.04	1.01	1.03	1.05
* Return on Operating Assets	9.60%	9.33%	8.24%	8.92%	9.67%
* Sales to Fixed Assets	1.32	1.34	1.22	1.20	1.26
* Return on Investment	8.48%	8.07%	14.42%	5.64%	6.15%
* Return on Total Equity	10.22%	9.55%	17.18%	7.65%	8.73%
* Return on Common Equity	10.22%	9.55%	17.18%	7.65%	8.73%
Gross Profit Margin	100.00%	100.00%	100.00%	100.00%	100.00%
INVESTOR ANALYSIS	2019	2018	2017	2016	2015
Degree of Financial Leverage	1.00	1.00	1.00	1.00	1.00
Earnings per Share	0.74	0.67	1.10	0.41	0.42
Price/Earnings Ratio	19.36	16.18	12.30	22.84	16.70

Percentage of Earnings Retained	31.08%	90.08%	95.17%	90.28%	90.65%
Dividend Payout	69.32%	10.04%	4.82%	9.80%	9.43%
Dividend Yield	3.58%	0.62%	0.39%	0.43%	0.56%
Book Value per Share	7.28	7.05	6.42	5.36	5.00
Materiality of Options					
Oper. Cash Flow per Share	1.85	1.82	1.48	1.63	1.52
Oper. Cash Flow/Cash Dividends	3.64	27.59	27.95	41.07	38.37
Year-end Market Price	14.33	10.79	13.53	9.32	7.08
=====					

## **Appendix C: Valuation Assumptions, Spreadsheets, and Calculation**

## Cost of Capital

Enter inputs in yellow cells.

Key Output of Valuation:

Inputs to Estimate WACC

Input

### Enter Current Market Value for Equity

Current stock price	\$18.30
Number of shares common stock outstanding	82,028
Market value of common stock	\$1,501,112

### Enter Current Market Value for Long-Term Debt

Estimated value of long-term debt	\$0
-----------------------------------	-----

### Enter Current Market Value for Short-Term Debt

Estimated value of short-term debt	\$0
------------------------------------	-----

### Enter Current Market Value for Preferred Stock

Estimated value of preferred stock	\$0
------------------------------------	-----

### Estimate Percent of Firm that will be Financed by Long-term Debt

Current percent of firm financed with long-term debt	0.00%
Target percent financed with long-term debt=	10%

### Estimate Percent of Firm that will be Financed by Preferred Stock

Current percent of firm financed with preferred stock	0.00%
Target percent financed with preferred stock =	0.00%

### Estimate Percent of Firm that will be Financed by Short-term Debt

Current percent of firm financed with short-term debt	0.00%
Target percent financed with short-term debt =	0.00%

### Estimate Cost of Equity

Beta=	0.55	Yahoo Finance, 5Y Monthly
Risk-free rate=	4.51%	<a href="https://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield">https://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield</a>
Market risk premium =	5.41%	<a href="https://www.ftserussell.com/products/indices/russell-us">https://www.ftserussell.com/products/indices/russell-us</a>
Cost of equity=	7.49%	

### Estimate Cost of Long-term Debt

Bond rating for company's debt	BB
Spread for bond rating	4.10%
Tax rate=	25.0%
Cost of long-term debt=	8.61%
After-tax cost of long-term debt=	6.46%

### Inputs to Estimate Cost of Preferred Stock

Yield on preferred stock	
Current coupon rate (preferred dividend/preferred stock)	0.00%



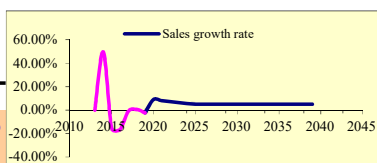
Cost of preferred stock =	0.00%
<b>Inputs to Estimate Cost of Short-term Debt</b>	
Prime rate	4.75%
Adjustment to prime	0.00%
Cost of short-term debt	4.75%
After-tax cost of short-term debt	3.56%
<b>Estimated WACC</b>	<b>7.38%</b>

## Inputs for Projections and Valuation

Enter inputs in yellow cells.

### Key Output of Valuation:

Projected ROIC at horizon	=	11.1%
Estimated price for 12/31/2019	=	\$ 17.75
Estimated price for 11/1/2020	=	\$ 18.74



### Inputs

Number of years historical data analyzed

7

Projected Projected Projected Projected Projected Projected

### Historical Values for Ratios Used to Project Financial Statements

#### Ratios to calculate operating profit

	Average	Trend	Most Recent	Starting rate	Long Term rate	Time until long term (years)	Fade Rate	2020	2021	2022	2023	2024	2025
Sales growth rate	2.5%	-17.1%	-2.3%	9.0%	5.0%	5	0.10	9.0%	8.0%	7.2%	6.4%	5.6%	5.0%
COGS / Sales	-0.1%	-0.1%	-0.1%	0.0%	0.0%	5	0.00	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
SGA / Sales	73.9%	72.6%	72.7%	73.9%	73.9%	5	0.10	73.9%	73.9%	73.9%	73.9%	73.9%	73.9%
Depreciation / Net PPE	22.2%	24.4%	19.2%	21.0%	21.0%	5	0.10	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%

#### Ratios to calculate operating capital

Cash / Sales	11.7%	24.1%	12.8%	12.8%	12.8%	5	0.10	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%
Inventory/ Sales	0.0%	0.0%	0.0%	0.0%	0.0%	5	0.10	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Accts. rec. / Sales	9.6%	7.6%	9.5%	9.5%	9.5%	5	0.10	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Other short term operating assets/Sales	4.2%	3.7%	3.1%	3.1%	3.1%	5	0.10	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%
Net PPE / Sales	70.0%	79.1%	88.2%	70.0%	70.0%	5	0.10	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%
Other long-term op. A. / Sales	23.8%	34.7%	36.0%	23.8%	23.8%	5	0.10	23.8%	23.8%	23.8%	23.8%	23.8%	23.8%
Accts. pay./ Sales	2.1%	1.3%	1.9%	1.9%	1.9%	5	0.10	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Accruals / Sales	8.8%	8.9%	8.8%	8.8%	8.8%	5	0.10	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%
Other current liabilities / Sales	0.0%	0.0%	0.0%	0.0%	0.0%	5	0.10	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

#### Ratios to calculate operating taxes

Deferred taxes/Net PPE	17.0%	18.3%	16.7%	16.7%	16.7%	5	0.10	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%
Average tax rate (Taxes/EBT)	22.6%	-3.2%	24.9%	38.6%	38.6%	5	0.10	38.6%	38.6%	38.6%	38.6%	38.6%	38.6%
Marginal tax rate	22.6%	-3.2%	24.9%	38.6%	38.6%	5	0.10	38.6%	38.6%	38.6%	38.6%	38.6%	38.6%

#### Dividend and debt ratios

Dividend policy: growth rate	-0.7%	-1.7%	-0.4%	24.00%	5.00%	5	-0.30	24.0%	22.1%	19.5%	16.0%	11.3%	5.0%
Long-term debt / market value of firm	#N/A	#N/A	0.00%	1.9355%	10.00%	5	0.10	1.9%	3.9%	5.7%	7.2%	8.7%	10.0%
Preferred stock / market value of firm	#N/A	#N/A	#N/A	0.00%	0.00%	5	0.00	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Coupon rate on preferred stock	#N/A	#N/A	#N/A	0.00%	0.00%	5	0.00	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Permanent component of short-term debt / market value of firm	#N/A	#N/A	#N/A	0.00%	0.00%	5	0.00	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

#### Ratios to calculate rest of income statement and balance sheet

Nonop. inc. / Sales	0.00%	0.00%	0.00%	0.00%	0.00%	5	0.10	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Extr. inc. / Sales	3.17%	3.03%	3.94%	3.94%	3.94%	5	0.10	3.94%	3.94%	3.94%	3.94%	3.94%	3.94%
Long-term investments / Sales	0.00%	0.00%	0.00%	0.00%	0.00%	5	0.10	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other long-term liab. / Sales	11.72%	8.00%	9.58%	9.58%	9.58%	5	0.10	9.58%	9.58%	9.58%	9.58%	9.58%	9.58%

#### Interest rates

Interest rate on cash				0.00%	0.00%	5	0.10	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Interest rate on short-term invest.				1.30%	4.00%	5	0.10	1.30%	1.95%	2.54%	3.08%	3.56%	4.00%
Interest rate on all current debt				4.25%	4.25%	5	0.10	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%
Interest rate on long-term debt				0.000%	8.61%	5	-1.00	0.00%	0.10%	0.37%	1.11%	3.13%	8.61%

#### Cost of Capital and L-T ROIC

Weighted Average Cost of Capital (WACC)	7.38%
Long-term return on invested capital	7.50%

Target valuation date

11/1/2020

## Projections and Valuation

Estimated price for most recent fiscal year	12/31/2019	=	\$ 17.75
Estimated price for target date	11/1/2020	=	\$ 18.74

	Most Recent 12/31/19	Projected 12/31/20	Projected 12/31/21	Projected 12/31/22	Projected 12/31/23	Projected 12/31/24
<b>Income Statement (\$ Thousands)</b>						
Sales	\$ 596,815	\$ 650,528	\$ 702,783	\$ 753,082	\$ 801,017	\$ 846,262
Costs of goods sold (COGS)	(720)	0	0	0	0	0
Sales, general and administrative expense (SGA)	433,669	480,899	519,528	556,712	592,147	625,595
Depreciation	100,932	95,684	103,370	110,768	117,819	124,474
Operating profit	\$ 62,934	\$ 73,945	\$ 79,885	\$ 85,602	\$ 91,051	\$ 96,194
Interest expense	1,052	0	28	220	1,003	3,784
Interest income	3,955	0	4,039	6,651	9,941	13,930
Nonoperating income (Expense)	0	0	0	0	0	0
Earnings before taxes (EBT)	\$ 65,837	\$ 73,945	\$ 83,896	\$ 92,034	\$ 99,989	\$ 106,341
Tax expense	16,376	28,543	32,384	35,525	38,596	41,047
Net income before extraordinary items	\$ 49,461	\$ 45,402	\$ 51,512	\$ 56,509	\$ 61,393	\$ 65,293
After-tax extraordinary income (Expense)	23,506	25,621	27,679	29,660	31,548	33,330
<b>Net income (NI)</b>	<b>\$ 72,967</b>	<b>\$ 71,024</b>	<b>\$ 79,191</b>	<b>\$ 86,169</b>	<b>\$ 92,941</b>	<b>\$ 98,623</b>
Dividends-- preferred	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Dividends-- common	\$ 6,563	\$ 8,138	\$ 9,936	\$ 11,875	\$ 13,779	\$ 15,341
Additions to RE	\$ 66,404	\$ 62,885	\$ 69,255	\$ 74,294	\$ 79,162	\$ 83,282

## Balance Sheets (\$ Thousands)

	12/31/19	12/31/20	12/31/21	12/31/22	12/31/23	12/31/24
<b>Assets</b>						
Cash	\$ 76,684	\$ 83,586	\$ 90,300	\$ 96,763	\$ 102,922	\$ 108,735
Inventory	0	0	0	0	0	0
Accounts receivable	56,753	61,861	66,830	71,613	76,171	80,474
Other short-term operating assets	18,377	20,031	21,640	23,189	24,665	26,058
Short-term investments	0	206,792	261,464	322,904	391,048	465,215
<b>Total current assets</b>	<b>\$ 151,814</b>	<b>\$ 372,270</b>	<b>\$ 440,233</b>	<b>\$ 514,468</b>	<b>\$ 594,805</b>	<b>\$ 680,482</b>
Net plant, property, & equipment (PPE)	526,287	455,637	492,237	527,467	561,041	592,732
Other long-term operating assets	214,824	154,782	167,215	179,183	190,589	201,354
Long-term investments	0	0	0	0	0	0
<b>Total Assets</b>	<b>\$ 892,925</b>	<b>\$ 982,689</b>	<b>\$ 1,099,685</b>	<b>\$ 1,221,119</b>	<b>\$ 1,346,435</b>	<b>\$ 1,474,568</b>
<b>Liabilities and Equity</b>						
Accounts payable (AP)	\$ 11,060	\$ 12,055	\$ 13,024	\$ 13,956	\$ 14,844	\$ 15,683
Accruals	52,347	57,058	61,641	66,053	70,258	74,226
Other operating current liabilities	0	0	0	0	0	0
All short-term debt	0	0	0	0	0	0
<b>Total current liabilities</b>	<b>\$ 63,407</b>	<b>\$ 69,114</b>	<b>\$ 74,665</b>	<b>\$ 80,009</b>	<b>\$ 85,102</b>	<b>\$ 89,909</b>
Long-term debt	0	27,799	58,885	89,991	120,867	151,296
Deferred taxes	87,692	75,920	82,018	87,888.64	93,483	98,763
Preferred stock	0	0	0	0	0	0
Other long-term liabilities	57,167	62,312	67,317	72,135	76,727	81,061
<b>Total liabilities</b>	<b>\$ 208,266</b>	<b>\$ 235,145</b>	<b>\$ 282,886</b>	<b>\$ 330,024</b>	<b>\$ 376,179</b>	<b>\$ 421,029</b>
Par plus PIC Less treasury (and other adjustments)	226,306	226,306	226,306	226,306	226,306	226,306
Retained earnings (RE)	458,353	521,238	590,494	664,788	743,951	827,233
<b>Total common equity</b>	<b>\$ 684,659</b>	<b>\$ 747,544</b>	<b>\$ 816,800</b>	<b>\$ 891,094</b>	<b>\$ 970,257</b>	<b>\$ 1,053,539</b>
<b>Total liabilities and equity</b>	<b>\$ 892,925</b>	<b>\$ 982,689</b>	<b>\$ 1,099,685</b>	<b>\$ 1,221,119</b>	<b>\$ 1,346,435</b>	<b>\$ 1,474,568</b>

## Info for making the sheets balance

Specified assets	775,897	838,221	898,215	955,388	1,009,353
Specified liabilities	982,689	1,099,685	1,221,119	1,346,435	1,474,568
Net required financing	(206,792)	(261,464)	(322,904)	(391,048)	(465,215)
Current debt	0	0	0	0	0
Short-term investments	206,792	261,464	322,904	391,048	465,215
<b>Balance check: TA-TL</b>	<b>Balance</b>	<b>Balance</b>	<b>Balance</b>	<b>Balance</b>	<b>Balance</b>

## Valuation

### Calculating Projected FCF

Marginal tax rate	25.0%	38.6%	38.6%	38.6%	38.6%	38.6%
Reported income tax expense	16,376	28,543	32,384	35,525	38,596	41,047
Taxes reported but not paid	21,186	(11,772)	6,098	5,870	5,594	5,280
Actual taxes paid	(4,810)	40,315	26,285	29,655	33,001	35,767
Plus tax saved due to net interest expenses	(726)	0	(1,548)	(2,483)	(3,450)	(3,917)
Minus tax paid on non-operating income	0	0	0	0	0	0
Tax on operating income	(5,536)	40,315	24,737	27,172	29,551	31,851
Net operating profit after taxes (NOPAT)	68,470	33,630	55,148	58,430	61,500	64,344

NOPAT adjusted for extraordinary income	91,976	59,252	82,827	88,090	93,048	97,674
Operating current assets	151,814	165,477	178,769	191,564	203,758	215,267
Operating current liabilities	63,407	69,114	74,665	80,009	85,102	89,909
Net operating working capital	88,407	96,364	104,104	111,555	118,656	125,358
Operating long term capital	741,111	610,420	659,452	706,651	751,630	794,086
Operating capital (adjusted for any special asset impairment of ac	829,518	706,783	763,556	818,206	870,286	919,444
Investment in operating capital	92,529	(122,735)	56,773	54,649	52,080	49,158
Free cash flow (including extraordinary income)	(553)	181,986	26,054	33,441	40,968	48,516

### Calculating Projected ROIC

ROIC (NOPAT/ Beginning capital)	9.3%	7.1%	11.7%	11.5%	11.4%	11.2%
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### Projected Growth Rates

Growth in Sales	9.0%	8.0%	7.2%	6.4%	5.6%
Growth in NOPAT	-35.6%	39.8%	6.4%	5.6%	5.0%
Growth in operating capital	-14.8%	8.0%	7.2%	6.4%	5.6%
Growth in FCF	-32994.1%	-85.7%	28.4%	22.5%	18.4%

### Calculating Value

WACC	7.38%	7.38%	7.38%	7.38%	7.38%	7.38%
Assumed long-term return on invested capital						
Horizon value						
Value of operations	1,460,224	1,386,041	1,462,314	1,536,832	1,609,323	1,679,619
Value of operations adjusted for half-year convention	1,513,166	1,436,294	1,515,332	1,592,551	1,667,671	1,740,516
Value of investments	0	206,792	261,464	322,904	391,048	465,215
Total value of firm	1,513,166	1,643,086	1,776,796	1,915,455	2,058,719	2,205,731
Value of all debt, preferred stock, and other nonoperating liabilities	57,167	90,111	126,202	162,127	197,594	232,356
Value of equity	1,455,999	1,552,975	1,650,594	1,753,329	1,861,125	1,973,374
Number of shares	82,028	82,028	82,028	82,028	82,028	82,028
<b>Estimated price per share, end of fiscal year</b>	<b>\$ 17.75</b>	<b>\$ 18.93</b>	<b>\$ 20.12</b>	<b>\$ 21.37</b>	<b>\$ 22.69</b>	<b>\$ 24.06</b>

### Price per share on target date

Most recent actual fiscal year end	12/31/2019
Target valuation date	11/1/2020
Most recent fiscal year-end prior to target date	12/31/2019
Number of days from target to fiscal year-end prior to target	306.00
Value of operations on target date	1,448,450
Value of investments on target date	173,366
Total value of firm on target date	1,621,815
Value of debt, preferred stock, and other nonoperating liabilities on target date	84,786
Value of equity on target date	1,537,029
Number of shares on target date	82,028
<b>Price per share, target date</b>	<b>\$ 18.74</b>

### Selected Projected Ratios and Other Data

Projected economic profit (EP)	91,976	(1,989)	30,647	31,719	32,642	33,423
Projected market value added (MVA)	683,648	729,510	751,776	774,346	797,386	821,072
Price/earnings ratio (P/E ratio)	20.0	21.9	20.8	20.3	20.0	20.0
Market to book ratio	2.1	2.1	2.0	2.0	1.9	1.9
Value/EBITDA ratio	9.2	9.7	9.7	9.8	9.9	10.0
Value/Sales ratio	2.5	2.5	2.5	2.5	2.6	2.6
Times-interest-earned ratio	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Long-term debt/value of operations		1.9%	3.9%	5.7%	7.2%	8.7%

### Statement of Cash Flows

#### Operating Activities

Net income	\$ 72,967	\$ 71,024	\$ 79,191	\$ 86,169	\$ 92,941	\$ 98,623
Depreciation	100,932	95,684	103,370	110,768	117,819	124,474
Change in deferred tax	21,186	(11,772)	6,098	5,870	5,594	5,280
Change in inventory	0	0	0	0	0	0
Change in accounts receivable	(7,798)	(5,108)	(4,969)	(4,783)	(4,558)	(4,303)
Change in other short-term operating assets	3,722	(1,654)	(1,609)	(1,549)	(1,476)	(1,393)
Change in accounts payable	508	995	968	932	888	838
Change in accruals	(1,790)	4,711	4,583	4,412	4,204	3,968
Change in other current liabilities	0	0	0	0	0	0
<b>Net cash from operating activities</b>	<b>\$ 189,727</b>	<b>\$ 153,880</b>	<b>\$ 187,633</b>	<b>\$ 201,820</b>	<b>\$ 215,413</b>	<b>\$ 227,489</b>

#### Investing Activities

Investment in PPE	\$ (224,099)	\$ (25,034)	\$ (139,969)	\$ (145,999)	\$ (151,393)	\$ (156,164)
Investment in other long-term oper. ass.	(48,768)	60,042	(12,433)	(11,968)	(11,405)	(10,765)
<b>Net cash from investing activities</b>	<b>\$ (272,867)</b>	<b>\$ 35,008</b>	<b>\$ (152,402)</b>	<b>\$ (157,967)</b>	<b>\$ (162,798)</b>	<b>\$ (166,929)</b>

**Financing Activities**

Change in short-term investments	\$ 0	\$ (206,792)	\$ (54,672)	\$ (61,440)	\$ (68,144)	\$ (74,167)
Change in long-term investments	0	0	0	0	0	0
Change in short-term debt	0	0	0	0	0	0
Change in long-term debt	0	27,799	31,086	31,107	30,876	30,429
Preferred dividends	0	0	0	0	0	0
Change in preferred stock	0	0	0	0	0	0
Change in other long-term liabilities	2,656	5,145	5,005	4,818	4,592	4,334
Change in common stock (Par + PIC)	2,283	0	0	0	0	0
Common dividends	(6,563)	(8,138)	(9,936)	(11,875)	(13,779)	(15,341)
<b>Net cash from financing activities</b>	<b>\$ (1,624)</b>	<b>\$ (181,986)</b>	<b>\$ (28,517)</b>	<b>\$ (37,390)</b>	<b>\$ (46,455)</b>	<b>\$ (54,746)</b>
<b>Net cash flow</b>	<b>\$ (84,764)</b>	<b>\$ 6,902</b>	<b>\$ 6,714</b>	<b>\$ 6,463</b>	<b>\$ 6,159</b>	<b>\$ 5,814</b>
Starting cash	161,448	76,684	83,586	90,300	96,763	102,922
Ending cash	<u>\$ 76,684</u>	<u>\$ 83,586</u>	<u>\$ 90,300</u>	<u>\$ 96,763</u>	<u>\$ 102,922</u>	<u>\$ 108,735</u>

Heartland Express, Inc.														
Analysis of Historical Financial Statements														
Enter inputs in yellow cells for comparative analysis.														
Click "buttons" in column B to change graph.														
Number of years of historical data you want to analyze (3 to 10 years).														
Historical Free Cash Flow (FCF)														
Assumed marginal tax rate						25%	25%	25%	25%	25%				
Reported income tax expense						16,376	12,999	(17,344)	27,362	34,955				
Taxes reported but not paid						21,186	2,755	(27,121)	(4,584)	8,618				
Actual taxes paid						(4,810)	10,244	9,778	31,946	26,337				
Plus tax saved due to net interest expenses						(726)	(533)	(239)	(120)	(48)				
Minus tax paid on non-operating income						-	-	-	-	-				
Tax on operating income						(5,536)	9,712	9,539	31,826	26,289				
Net operating profit after taxes (NOPAT)						68,470	55,112	27,331	44,538	55,251				
NOPAT/Sales					<input type="radio"/> NOPAT/Sales	11.5%	9.0%	4.5%	7.3%	7.5%				
NOPAT adjusted for extraordinary income						91,976	73,835	47,337	51,441	81,531				
Operating current assets						151,814	232,502	170,835	202,111	119,782				
Operating current liabilities						63,407	64,689	75,321	65,534	66,168				
Net operating working capital						88,407	167,813	95,514	136,577	53,614				
Operating long term capital						741,111	569,176	616,555	532,332	599,586				
Operating capital (adjusted for any special asset impairment of accounting changes)						829,518	736,989	712,069	668,909	653,200				
Operating capital/Sales					<input type="radio"/> Op. Capital/Sales	139.0%	120.7%	117.2%	109.1%	88.7%				
Investment in operating capital						92,529	24,920	43,160	15,709	(23,739)				
Free cash flow from ongoing operations					<input type="radio"/> FCF	(24,059)	30,192	(15,829)	28,829	78,990				
Free cash flow (including extraordinary income)						\$ (553)	\$ 48,915	\$ 4,177	\$ 35,732	\$ 105,270				
Historical Return on Invested Capital														
ROIC (NOPAT/ Beginning capital)					<input type="radio"/> ROIC	9.3%	7.7%	4.1%	6.8%	8.2%				
Historical Economic Profit														
Historical weighted average costs of capital						8.0%	9.0%	10.0%	10.0%	10.0%				
Economic profit					<input type="radio"/> Econ. Prof.	\$ 33,017	\$ 9,748	\$ (19,554)	\$ (13,879)	\$ 13,837				
Traditional Ratio Analysis: Fill in yellow cells with ratios for industry or for closest competitor for most recent year.														
Graph														
Payout ratio					<input type="radio"/> Payout Ratio	Most Recent Industry or Competitor	Company's Historical Average	Trend	Most Recent					
						69.32%	9.5%	9.3%	9.0%	9.1%	8.9%	11.8%	9.5%	
Annual sales growth rate					<input checked="" type="radio"/> Sales g	7.00%	2.5%	-17.1%	-2.3%	0.6%	-0.9%	-16.8%	-15.5%	
Quick ratio					<input type="radio"/> Quick Ratio	1.75	2.37	3.29	2.39	3.59	2.27	3.08	1.81	

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